TASTY BAKING CO
Form SC 14D9
April 11, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14D-9
(Rule 14d-101)

Solicitation/Recommendation Statement Under Section 14(d)(4)
of the Securities Exchange Act of 1934

TASTY BAKING COMPANY
(Name of Subject Company)

TASTY BAKING COMPANY
(Name of Person Filing Statement)

Common Stock, par value $0.50 per share
(Title of Class of Securities)

876553306
(CUSIP Number of Class of Securities)

Larry Weilheimer
Senior Vice President and General Counsel
Navy Yard Corporate Center
Three Crescent Drive, Suite 200
Philadelphia, Pennsylvania 19112
(215) 221-8500
(Name, Address and Telephone Number of Person Authorized to Receive Notices and
Communications on Behalf of Person Filing Statement)

Copy to:

Eric D. Schoenborn
Stradley Ronon Stevens & Young, LLP
Woodland Falls Corporate Park

200 Lake Drive East, Suite 100
Cherry, Hill, NJ 08002
(856) 321-2413

T Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

On April 11, 2011, Tasty Baking Company ("Company") and Flowers Foods, Inc. issued a joint press release and the Company disseminated a letter to its employees, its independent sales distributors and a question and answer sheet to the media. The Company hereby incorporates by reference into this Schedule 14D-9 the following exhibits to the Company's Current Report on Form 8-K filed on April 11, 2011:

Exhibit 99.1	Press Release dated April 11, 2011
Exhibit 99.2	Letter sent to employees of the Company on April 11, 2011
Exhibit 99.3	Letter sent to independent sales distributors on April 11, 2011
Exhibit 99.4	Question and answer sheet distributed on April 11, 2011

ly:Times New Roman, Times, serif;margin-right:0pt;margin-top:0pt;text-align:justify;margin-bottom:0pt;font-size:10pt;">amend the terms of subordinated debt.

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

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

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We own, operate or lease manufacturing, distribution and office facilities globally totaling over four million square feet. We also have inventory warehouses that accommodate material storage and rapid response requirements of our customers. The following table provides information about our principal facilities exceeding 10,000 square feet:

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

As of December 31, 2017, substantially all of our domestically-owned and a portion of our internationally-owned properties are subject to collateral provisions under our senior secured credit facilities.

Item 3. Legal Proceedings

From time to time, we are involved in legal proceedings primarily involving product liability, patent and employment matters and general commercial disputes arising in the ordinary course of our business. As of December 31, 2017, we believe that there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Price Range of Common Stock

Shares of our common stock are traded on the New York Stock Exchange (NYSE) under the symbol “GNRC.” The following table sets forth the high and low sales prices reported on the NYSE for our common stock by fiscal quarter during 2017 and 2016, respectively.

2017	**High**	**Low**
Fourth Quarter	$52.09	$48.21
Third Quarter	$46.15	$35.91
Second Quarter	$37.29	$34.52
First Quarter	$42.64	$36.79

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

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Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table summarizes the stock repurchase activity for the three months ended December 31, 2017, which also 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
10/01/17 - 10/31/17	79	$ 51.77	-	$ 170,108,876
11/01/17 - 11/30/17	641	49.21	-	170,108,876
12/01/17 - 12/31/17	-	-	-	170,108,876
Total	720	$ 49.49		

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

Stock Performance Graph

The line graph below compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor’s S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index for the five-year period ended December 31, 2017. The graph and table assume that $100 was invested on December 31, 2012 in each of our common stock, the S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index, and that all dividends were reinvested. Cumulative total stockholder returns for our common stock, the S&P 500 Index, the S&P 500 Industrials Index and the Russell 2000 Index are based on our fiscal year.

Company / Market / Peer Group	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Generac Holdings Inc.	$ 100.00	$ 187.73	$ 154.98	$ 98.67	$ 135.03	$ 164.13
S&P 500 Index - Total Returns	100.00	132.39	150.51	152.59	170.84	208.14
S&P 500 Industrials Index	100.00	140.68	154.50	150.59	178.99	216.64
Russell 2000 Index	100.00	138.82	145.62	139.19	168.85	193.58

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Holders

As of February 16, 2018, there were approximately 204 registered holders of record of Generac's common stock. A substantially greater number of holders of Generac common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

Dividends

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

Securities Authorized for Issuance Under Equity Compensation Plans

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

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Registered Securities

Not applicable.

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data for the periods and at the dates indicated. The selected historical consolidated financial data for the years ended December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical consolidated financial data for the years ended December 31, 2014 and 2013 is derived from our audited historical consolidated financial statements not included in this annual report.

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

	Year Ended December 31,				
(U.S. Dollars in thousands, except per share data)	**2017**	**2016**	**2015**	**2014**	**2013**
Statement of Operations Data:					
Net sales	$1,672,445	$1,444,453	$1,317,299	$1,460,919	$1,485,765
Costs of goods sold	1,090,328	930,347	857,349	944,700	916,205
Gross profit	582,117	514,106	459,950	516,219	569,560
Operating expenses:					
Selling and service	171,755	164,607	130,242	120,408	107,515
Research and development	42,925	37,229	32,922	31,494	29,271
General and administrative	87,512	74,700	52,947	54,795	55,490
Amortization of intangibles (1)	28,861	32,953	23,591	21,024	25,819
Tradename and goodwill impairment (2)	-	-	40,687	-	-
Gain on remeasurement of contingent consideration (3)	-	-	-	(4,877)	-
Total operating expenses	331,053	309,489	280,389	222,844	218,095
Income from operations	251,064	204,617	179,561	293,375	351,465
Other (expense) income:					
Interest expense	(42,667)	(44,568)	(42,843)	(47,215)	(54,435)
Investment income	298	44	123	130	91
Loss on extinguishment of debt (4)	-	(574)	(4,795)	(2,084)	(15,336)
Gain (loss) on change in contractual interest rate (5)	-	(2,957)	(2,381)	16,014	-
Costs related to acquisitions	(777)	(1,082)	(1,195)	(396)	(1,086)
Other, net	(3,230)	902	(5,487)	(1,462)	(1,983)
Total other expense, net	(46,376)	(48,235)	(56,578)	(35,013)	(72,749)
Income before provision for income taxes	204,688	156,382	122,983	258,362	278,716
Provision for income taxes (6)	43,553	57,570	45,236	83,749	104,177
Net income	161,135	98,812	77,747	174,613	174,539
Net income attributable to noncontrolling interests	1,749	24	-	-	-
Net income attributable to Generac Holdings Inc.	$159,386	$98,788	$77,747	$174,613	$174,539
Net income attributable to common shareholders per common share - diluted:	$2.56	$1.50	$1.12	$2.49	$2.51
Statement of Cash Flows data:					
Depreciation	$23,127	$21,465	$16,742	$13,706	$10,955
Amortization of intangible assets	28,861	32,953	23,591	21,024	25,819
Expenditures for property and equipment	(33,261)	(30,467)	(30,651)	(34,689)	(30,770)

Other Financial Data:

Adjusted EBITDA attributable to Generac Holdings Inc. (7)	$311,655	$274,603	$270,816	$337,283	$402,613
Adjusted net income attributable to Generac Holdings Inc. (8)	212,858	198,257	198,436	234,165	301,664

	As of December 31,				
(U.S. Dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**
Balance Sheet Data:					
Current assets	$818,556	$683,509	$632,017	$707,637	$627,310
Property and equipment, net	230,380	212,793	184,213	168,821	146,390
Goodwill	721,523	704,640	669,719	635,565	608,287
Other intangibles and other assets	249,505	260,742	292,686	352,396	394,237
Total assets	$2,019,964	$1,861,684	$1,778,635	$1,864,419	$1,776,224
Total current liabilities	$388,872	$341,939	$213,224	$240,522	$250,845
Long-term borrowings, less current portion	906,548	1,006,758	1,037,132	1,065,858	1,155,298
Other long-term liabilities	120,784	78,737	62,408	68,240	53,010
Redeemable noncontrolling interests	43,929	33,138	-	-	-
Total stockholders' equity	559,831	401,112	465,871	489,799	317,071
Total liabilities and stockholders' equity	$2,019,964	$1,861,684	$1,778,635	$1,864,419	$1,776,224

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

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

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

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

(5) For the year ended December 31, 2016, represents a non-cash loss in the third quarter 2016 relating to the continued 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above 3.0 times based on projections at that time. For the year ended December 31, 2015, represents a non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above 3.0 times effective in the third quarter 2015 and expected to remain above 3.0 times based on projections at that time. For the year ended December 31, 2014, represents a non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times effective in the second quarter 2014 and expected to remain below 3.0 times based on projections at that time. Following the May 2017 Term Loan amendment, which removed the pricing grid based on leverage ratio achieved, gains or losses on changes in contractual interest rate will no longer be recorded in the statements of comprehensive income. Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the gains and losses on changes in the contractual interest rate.

(6) 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 the net deferred tax liabilities. Refer to Note 13, "Income Taxes," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Tax Act and its impact.

(7) Adjusted EBITDA represents net income before noncontrolling interests, interest expense, taxes, depreciation and amortization, as further adjusted for the other items reflected in the reconciliation table set forth below. The

computation of adjusted EBITDA is based on the definition of EBITDA contained in the Term Loan and Amended ABL Facility (terms defined in Note 10, “Credit Agreements,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K).

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

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

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

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

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

- we do not consider indicative of our ongoing operating performance, such as non-cash write-downs and other charges, non-cash gains, 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 expense.

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

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

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

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

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

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

	Year Ended December 31,				
(U.S. Dollars in thousands)	**2017**	**2016**	**2015**	**2014**	**2013**

Net income attributable to Generac Holdings Inc.	$159,386	$98,788	$77,747	$174,613	$174,539
Net income attributable to noncontrolling interests (a)	1,749	24	-	-	-
Net income	161,135	98,812	77,747	174,613	174,539
Interest expense	42,667	44,568	42,843	47,215	54,435
Depreciation and amortization	51,988	54,418	40,333	34,730	36,774
Provision for income taxes	43,553	57,570	45,236	83,749	104,177
Non-cash write-down and other adjustments (b)	2,923	357	3,892	(3,853)	78
Non-cash share-based compensation expense (c)	10,205	9,493	8,241	12,612	12,368
Tradename and goodwill impairment (d)	-	-	40,687	-	-
Loss on extinguishment of debt (e)	-	574	4,795	2,084	15,336
(Gain) loss on change in contractual interest rate (f)	-	2,957	2,381	(16,014)	-
Transaction costs and credit facility fees (g)	2,145	2,442	2,249	1,851	3,863
Business optimization expenses (h)	2,912	7,316	1,947	-	-
Other	202	(120)	465	296	1,043
Adjusted EBITDA	317,730	278,387	270,816	337,283	402,613
Adjusted EBITDA attributable to noncontrolling interests	6,075	3,784	-	-	-
Adjusted EBITDA attributable to Generac Holdings Inc.	$311,655	$274,603	$270,816	$337,283	$402,613

(a) Includes the noncontrolling interests' share of expenses related to Pramac purchase accounting, including the step-up in value of inventories and intangible amortization of $4.7 million and $8.0 million for the years ended December 31, 2017 and 2016, respectively.

(b) Represents the following non-cash charges: 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. Additionally, the year ended December 31, 2014 includes a gain of $4.9 million related to an adjustment to an earn-out obligation in connection with the Tower Light acquisition.

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

The gains/losses on disposals of assets result from the sale of assets that are no longer useful in our business and therefore represent gains or losses that are not from our core operations;
The adjustments for unrealized mark-to-market gains and losses on commodity contracts represent non-cash items to reflect changes in the fair value of forward contracts that have not been settled or terminated. We believe it is useful to adjust net income for these items because the charges do not represent a cash outlay in the period in which the charge is incurred, although Adjusted EBITDA must always be used together with our U.S. GAAP statements of comprehensive income and cash flows to capture the full effect of these contracts on our operating performance;
The purchase accounting adjustments represent non-cash items to reflect fair value at the date of acquisition, and therefore do not reflect our ongoing operations; and
The adjustment to a certain earn-out obligation in connection with the Tower Light acquisition recorded in the year ended December 31, 2014, is a one-time charge that we believe does not reflect our ongoing operations.

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

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

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

(f) For the year ended December 31, 2016, represents a non-cash loss relating to the continued 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above 3.0 times based on projections at that time. For the year ended December 31, 2015, represents a non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above 3.0 times and expected to remain above 3.0 times based on projections at that time. For the year ended December 31, 2014, represents a non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the credit agreement leverage ratio falling below 3.0 times and expected to remain below 3.0 times based on projections at that time. Following the May 2017 Term Loan amendment, which removed the pricing grid based on leverage ratio achieved, gains or losses on changes in contractual interest rate will no longer be recorded in the statements of comprehensive income. Refer to Note 10, “Credit Agreements,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the gains and losses on changes in the contractual interest rate.

(g) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance, or debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities, such as:

administrative agent fees and revolving credit facility commitment fees under our Term Loan and Amended ABL Facility, which we believe to be akin to, or associated with, interest expense and whose inclusion in Adjusted EBITDA is therefore similar to the inclusion of interest expense in that calculation;
transaction costs relating to the acquisition of a business; and

other financing costs incurred relating to the dividend recapitalization transaction in May 2013.

(h) Represents severance and non-recurring plant consolidation costs. Additionally, the year ended December 31, 2016 primarily represents charges relating to business optimization and restructuring costs to address the significant and extended downturn for capital spending within the oil & gas industry. These charges represent expenses that are not from our core operations and do not reflect our ongoing operations.

(8) Adjusted Net Income is defined as net income before noncontrolling interests and provision for income taxes adjusted for the following items: cash income tax expense, amortization of intangible assets, amortization of deferred financing costs and original issue discount related to our debt, intangible impairment charges, certain transaction costs and other purchase accounting adjustments, losses on extinguishment of debt, business optimization expenses, certain other non-cash gains and losses, and adjusted net income attributable to noncontrolling interests.

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

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

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.

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

(U.S. Dollars in thousands)	Year Ended December 31, 2017	2016	2015	2014	2013
Net income attributable to Generac Holdings Inc.	$159,386	$98,788	$77,747	$174,613	$174,539
Net income attributable to noncontrolling interests	1,749	24	-	-	-
Net income	161,135	98,812	77,747	174,613	174,539
Provision for income taxes	43,553	57,570	45,236	83,749	104,177
Income before provision for income taxes	204,688	156,382	122,983	258,362	278,716
Amortization of intangible assets	28,861	32,953	23,591	21,024	25,189
Amortization of deferred finance costs and original issue discount	3,516	3,940	5,429	6,615	4,772
Tradename and goodwill impairment	-	-	40,687	-	-
Loss on extinguishment of debt	-	574	4,795	2,084	15,336
(Gain) loss on change in contractual interest rate	-	2,957	2,381	(16,014)	-
Transaction costs and other purchase accounting adjustments (a)	1,706	5,653	2,710	(3,623)	2,842
Business optimization expenses	2,912	7,316	1,947	-	-
Adjusted net income before provision for income taxes	241,683	209,775	204,523	268,448	326,855
Cash income tax expense (b)	(25,624)	(9,299)	(6,087)	(34,283)	(25,821)
Adjusted net income	216,059	200,476	198,436	234,165	301,034
Adjusted net income attributable to noncontrolling interests	3,201	2,219	-	-	-
Adjusted net income attributable to Generac Holdings Inc.	$212,858	$198,257	$198,436	$234,165	$301,034

(a) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, and certain purchase accounting adjustments. Additionally, the year ended December 31, 2014 includes a gain of $4.9 million related to an adjustment to an earn-out obligation in connection with the Tower Light acquisition.

(b) For the years ended December 31, 2017 and 2016, the amount is based on a cash income tax rate of 12.5% and 5.9%, respectively. Cash income tax expense for 2017 and 2016 is based on the projected taxable income and corresponding cash tax rate for the full year after considering the effects of current and deferred income tax items, and is calculated by applying the derived cash tax rate to the period’s pretax income. For the years ended December 31, 2015, 2014 and 2013, amounts are based on actual cash income taxes paid during each year.

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

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

Overview

We are a leading 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 & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use.

Recent Developments

On February 13, 2018, we signed a purchase agreement to acquire Selmec Equipos Industriales, S.A. de C.V. (Selmec), which is headquartered in Mexico City, Mexico. Selmec, which has approximately 300 employees, is a designer and manufacturer of industrial generators ranging from 10 kW to 2,750 kW. Selmec offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services.

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Business Drivers and Operational Factors

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

Business Drivers and Trends

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

Increasing penetration opportunity. Many potential customers are 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 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. Major power disruptions are unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. In addition, there are smaller, more localized power outages that occur frequently across the United States that drive the baseline level of demand for back-up power solutions. The level of baseline power outage activity occurring across the United States can also fluctuate, and may cause our financial results to fluctuate from year to year.

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

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

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Factors Affecting Results of Operations

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

Effect of commodity, currency and component price fluctuations. Industry-wide price fluctuations of key commodities, such as steel, copper and aluminum, along with other components we use in our products, 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 international presence, exposes us to fluctuations in foreign currency exchange rates that can have a material impact on our results of operations.

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

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

Factors influencing interest expense and cash interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in LIBOR, interest rate election periods, interest rate swap agreements, and repayments or borrowings of indebtedness. Cash interest expense decreased during 2017 compared to 2016, primarily due to the $25 million voluntary prepayment of Term Loan debt in November 2016, the May and December 2017 Term Loan refinancings, the repayment of $100 million of ABL Facility borrowings, and decreased borrowings at other subsidiaries; partially offset by an increase in the LIBOR rate. Refer to Note 10, “Credit Agreements,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information.

Factors influencing provision for income taxes and cash income taxes paid. On December 22, 2017, the U.S. government enacted the Tax Act, which 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 the Company continues to assess the full impact of the Tax Act, the preliminary analysis suggests a meaningful benefit from the legislation. Specifically for 2018, the combined federal and state effective tax rate is expected to decline to between 25 to 26%, 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 13, "Income Taxes," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Tax Act and its impact.

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 due to a reduction in the assumed tax rate from 39% to 26% as a result of the Tax Act. The recognition of the tax benefit associated with these assets for tax purposes is expected to be $122 million annually through 2020 and $102 million in 2021, which generates annual cash tax savings of $32 million through 2020 and $26 million in 2021, 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 the Company's consolidated financial statements.

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

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Components of Net Sales and Expenses

Net Sales

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

We are not dependent on any one channel or customer for our net sales, with no single customer representing more than 6% of our sales, and our top ten customers representing less than 22% of our total sales for the year ended December 31, 2017.

Costs of Goods Sold

The principal elements of costs of goods sold in our manufacturing operations are component parts, raw materials, factory overhead and labor. Component parts and raw materials comprised approximately 77% of costs of goods sold for the year ended December 31, 2017. The principal component parts are engines and alternators. We design and manufacture air-cooled engines for certain of our generators up to 22kW, along with certain liquid-cooled engines. We source engines for certain of our smaller products and all of our diesel products. For certain natural gas engines, we source the base engine block, and then add a significant amount of value engineering, sub-systems and other content to the point that we are recognized as the OEM of those engines. We design many of the alternators for our units and either manufacture or source alternators for certain of our units. We also manufacture other generator components where we believe we have a design and cost advantage. We source component parts from an extensive global network of reliable, high quality suppliers. In some cases, these relationships are proprietary.

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

Other sources of costs include our manufacturing and warehousing facilities, factory overhead, labor and shipping costs. Factory overhead includes utilities, support personnel, depreciation, general supplies, support and maintenance.

Although we attempt to maintain a flexible manufacturing cost structure, our margins can be impacted when we cannot timely adjust labor and manufacturing costs to match fluctuations in net sales.

Operating Expenses

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

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

Research and development. Our research and development expenses support numerous projects covering all of our product lines. We operate engineering facilities at many locations globally and employ over 350 personnel with focus on new product development, existing product improvement and cost containment. We are committed to research and development, and rely on a combination of patents and trademarks to establish and protect our proprietary rights. Our research and development costs are expensed as incurred.

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

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

Other (Expense) Income

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

Results of Operations

Year ended December 31, 2017 compared to year ended December 31, 2016

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

	Year Ended December 31,			
(U.S. Dollars in thousands)	**2017**	**2016**	**$ Change**	**% Change**
Net sales	$1,672,445	$1,444,453	227,992	15.8 %
Cost of goods sold	1,090,328	930,347	159,981	17.2 %
Gross profit	582,117	514,106	68,011	13.2 %
Operating expenses:				
Selling and service	171,755	164,607	7,148	4.3 %
Research and development	42,925	37,229	5,696	15.3 %
General and administrative	87,512	74,700	12,812	17.2 %
Amortization of intangible assets	28,861	32,953	(4,092)	-12.4 %
Total operating expenses	331,053	309,489	21,564	7.0 %
Income from operations	251,064	204,617	46,447	22.7 %
Total other expense, net	(46,376)	(48,235)	1,859	-3.9 %
Income before provision for income taxes	204,688	156,382	48,306	30.9 %
Provision for income taxes	43,553	57,570	(14,017)	-24.3 %
Net income	161,135	98,812	62,323	63.1 %
Net income attributable to noncontrolling interests	1,749	24	1,725	N/A
Net income attributable to Generac Holdings Inc.	$159,386	$98,788	60,598	61.3 %

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

	Net Sales Year Ended December 31,				
(U.S. Dollars in thousands)	**2017**	**2016**	**$ Change**	**% Change**	
Domestic	$1,296,578	$1,173,559	123,019	10.5	%
International	375,867	270,894	104,973	38.8	%
Total net sales	$1,672,445	$1,444,453	227,992	15.8	%

	Adjusted EBITDA Year Ended December 31,				
	2017	**2016**	**$ Change**	**% Change**	
Domestic	$290,720	$261,428	29,292	11.2	%
International	27,010	16,959	10,051	59.3	%
Total Adjusted EBITDA	$317,730	$278,387	39,343	14.1	%

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

(U.S. Dollars in thousands)	Year Ended December 31, 2017	2016	$ Change	% Change	
Residential products	$870,410	$772,436	97,974	12.7	%
Commercial & industrial products	685,052	557,532	127,520	22.9	%
Other	116,983	114,485	2,498	2.2	%
Total net sales	$1,672,445	$1,444,453	227,992	15.8	%

Net sales. The increase in Domestic sales for the year ended December 31, 2017 was primarily due to strong growth in shipments of home standby and portable generators driven by increased power outage activity, along with strong growth for mobile products due to recovery in the general rental and oil & gas markets, given the continued replacement cycle by our rental customers.

The increase in International sales for the year ended December 31, 2017 was due to the contribution from the recent acquisitions of Pramac and Motortech. The growth was also due to increased organic shipments of both C&I and residential products within the European and Latin America regions.

The total contribution from non-annualized recent acquisitions for the year ended December 31, 2017 was $69.7 million.

Gross profit. Gross profit margin for the year ended December 31, 2017 was 34.8% compared to 35.6% for the year ended December 31, 2016. The prior year included $2.7 million of business optimization and restructuring costs classified within cost of goods sold to address the significant and extended downturn for capital spending within the oil & gas industry, as well as $4.2 million of expense relating to the purchase accounting adjustment for the step-up in value of inventories relating to the Pramac acquisition. The current year included $2.0 million of business optimization and non-recurring plant consolidation costs. Excluding the impact of these charges, pro-forma gross margins were 34.9% and 36.1% in 2017 and 2016, respectively. The pro-forma decrease in gross margins was primarily due to unfavorable sales mix attributable to higher organic sales within the International segment and of mobile products relative to prior year, which carry lower gross margins relative to the consolidated average. Additionally, the mix impact from the Pramac and Motortech acquisitions, and higher commodity prices negatively impacted gross margin. These impacts were partially offset by improved leverage of fixed manufacturing costs on the higher organic sales volumes and net favorable pricing impacts.

Operating expenses. Operating expenses increased $21.6 million, or 7.0%, as compared to the year ended December 31, 2016. The prior year included $4.4 million of business optimization and restructuring costs classified within operating expenses to address the downturn for capital spending within the oil & gas industry. Excluding the impact of these charges, operating expenses increased $26.0 million, or 8.5%, as compared to the prior year. The increase was primarily due to the addition of recurring operating expenses associated with the Pramac and Motortech acquisitions, and an increase in personnel costs including higher incentive compensation accrued during the current year; partially offset by a decline in amortization of intangibles.

Other expense. The decrease in other expense was primarily due to a prior year $3.0 million non-cash loss on change in contractual interest rate not repeating and a prior year $0.6 million loss on extinguishment of debt resulting from a $25.0 million voluntary prepayment of Term Loan debt. Additionally, interest expense decreased in the current year due to that $25.0 million Term Loan prepayment in November 2016, Term Loan repricings in May and December 2017, and decreased borrowings at other subsidiaries. These impacts were partially offset by an increase in LIBOR rates and foreign currency transactional losses.

Provision for income taxes. The effective income tax rates for the years ended December 31, 2017 and 2016 were 21.3% and 36.8%, respectively. The decrease in the effective income tax rate is primarily due to the provisional favorable effect of the Tax Act, including a one-time, non-cash benefit of $28.4 million recorded in the fourth quarter of 2017, as well as excess tax benefits from share-based compensation. Refer to Note 13, “Income Taxes,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Tax Act and its impact.

Net income attributable to Generac Holdings Inc. The increase in net income attributable to Generac Holdings Inc. was primarily due to the factors outlined above partially offset by an increase in net income attributable to noncontrolling interests.

Adjusted EBITDA. Adjusted EBITDA margins for the Domestic segment for the year ended December 31, 2017 were 22.4% of net sales as compared to 22.3% of net sales for the year ended December 31, 2016. This increase was primarily due to improved overall leverage of fixed operating expenses on the organic increase in sales, and the net favorable impact of pricing. These impacts were partially offset by higher commodity prices and an increase in personnel costs including higher incentive compensation accrued during the current year.

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Adjusted EBITDA margins for the International segment for the year ended December 31, 2017 were 7.2% of net sales as compared to 6.3% of net sales for the year ended December 31, 2016. The increase was primarily due improved overall leverage of fixed manufacturing and operating expenses on the organic increase in sales, the addition of the Motortech acquisition and cost reduction actions. These impacts were partially offset by higher commodity prices and increased operating expenses associated with the expansion of certain branch operations.

Adjusted net income. Adjusted Net Income of $212.9 million for the year ended December 31, 2017 increased 7.4% from $198.3 million for the year ended December 31, 2016, due to the factors outlined above, partially offset by an increase in cash income tax expense.

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

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

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

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

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

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

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

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

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

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

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

Net income attributable to Generac Holdings Inc. Net income attributable to Generac Holdings Inc. for the year ended December 31, 2016 includes the impact of $7.1 million of non-recurring, pre-tax charges relating to business optimization and restructuring costs to address the impact of the significant and extended downturn for capital spending within the oil & gas industry. The cost-reduction actions taken include the consolidation of production facilities, headcount reductions, certain non-cash asset write-downs and other non-recurring product-related charges. The charges consist of $2.7 million classified within cost of goods sold and $4.4 million classified within operating expenses. The increase in net income attributable to Generac Holdings Inc. was primarily due to a 2015 $40.7 million pre-tax, non-cash charge for the impairment of certain intangible assets, partially offset by the business optimization charge discussed above and the other factors outlined in this section.

Gross profit. Gross profit margin for the year ended December 31, 2016 was 35.6% compared to 34.9% for the year ended December 31, 2015, which includes the impact of the aforementioned $2.7 million of business optimization charges classified within cost of goods sold, as well as $4.2 million of expense relating to the purchase accounting adjustment for the step-up in value of inventories relating to the Pramac acquisition. Excluding the impact of these adjustments, pro-forma gross profit margin was 36.1%, an improvement of 120 basis points over the year ended December 31, 2015. The pro-forma increase was primarily due to the favorable impacts from lower commodity costs and overseas sourcing benefits from a stronger U.S. Dollar, along with an overall favorable organic product mix. In addition, gross margin in 2015 was negatively impacted by temporary increases in certain costs associated with the west coast port congestion as well as other overhead-related costs that did not repeat in the current year. These factors were partially offset by the mix impact from the Pramac acquisition.

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

Other expense. Other expense in 2015 included a non-cash $4.8 million loss on extinguishment of debt resulting from $150.0 million of voluntary prepayments of Term Loan debt, and a $2.4 million non-cash loss resulting from an increase in our Term Loan interest rate spread of 25 basis points. In 2016, other expense included a $3.0 million non-cash loss resulting from a continuation of the 25 basis point spread increase, and a $0.6 million loss on

extinguishment of debt resulting from a $25.0 million voluntary prepayment of Term Loan debt.

Provision for ncome taxes. The effective income tax rates for the years ended December 31, 2016 and 2015 were both 36.8%.

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

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

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

Liquidity and Financial Position

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

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Our credit agreements originally provided for a $1.2 billion term loan B credit facility (Term Loan) and include a $300.0 million uncommitted incremental term loan facility. The Term Loan matures on May 31, 2023. The Term Loan currently bears interest at rates based upon either a base rate plus an applicable margin of 1.00% or adjusted LIBOR rate plus an applicable margin of 2.00%, subject to a LIBOR floor of 0.75%. As of December 31, 2017, the Company is 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 $250.0 million Amended ABL Facility. The maturity date of the Amended ABL Facility is May 29, 2020. As of December 31, 2017, there was $249.7 million of availability under the Amended ABL Facility, net of outstanding letters of credit. The Company is in compliance with all covenants of the Amended ABL Facility.

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. During the year ended December 31, 2017, we repurchased 844,500 shares of our common stock for $30.0 million; during the year ended December 31, 2016, we repurchased 3,968,706 shares of our common stock for $149.9 million; and during the year ended December 31, 2015, we repurchased 3,303,500 shares of our common stock for $99.9 million, all funded with cash on hand.

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

Long-term Liquidity

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

Cash Flow

Year ended December 31, 2017 compared to year ended December 31, 2016

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

(U.S. Dollars in thousands)	Year Ended December 31, 2017	2016	Change	% Change
Net cash provided by operating activities	$261,116	$253,409	$7,707	3.0 %
Net cash used in investing activities	(31,922)	(105,822)	73,900	-69.8 %
Net cash used in financing activities	(160,143)	(195,705)	35,562	-18.2 %

The 3.0% increase in net cash provided by operating activities was primarily driven by an overall increase in operating earnings, partially offset by a lesser benefit from working capital reductions during the current year, which was primarily due to replenishing inventory levels in the first quarter of 2017 following Hurricane Matthew, and ramping up production in the second half of 2017 in response to Hurricanes Harvey, Irma and Maria.

Net cash used in investing activities for the year ended December 31, 2017 primarily consisted of cash payments for the purchase of property and equipment. Net cash used in investing activities for the year ended December 31, 2016 primarily represents cash payments of $76.7 million related to the acquisition of businesses and $30.5 million for the purchase of property and equipment.

Net cash used in financing activities for the year ended December 31, 2017 primarily consisted of $232.4 million of debt repayments ($117.5 million of long-term borrowings and $114.9 million of short-term borrowings), $30.0 million for the repurchase of the Company’s common stock, $5.9 million of taxes paid related to equity awards and $3.9 million of payments for debt issuance costs. These payments were partially offset by $105.1 million cash proceeds from borrowings ($102.0 million for short-term borrowings and $3.1 million for long-term borrowings) and $7.0 million of proceeds from the exercise of stock options.

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

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

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

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

The 34.3% increase in net cash provided by operating activities was primarily driven by a reduction in working capital investment during 2016 as compared to the larger investment that was incurred in 2015, and an overall increase in operating earnings.

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

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

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

Senior Secured Credit Facilities

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

Covenant Compliance

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

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

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

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Contractual Obligations

The following table summarizes our expected payments for significant contractual obligations as of December 31, 2017, using the interest rates in effect as of that date:

(U.S. Dollars in thousands)	Total	Less than 1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Long-term debt, including curent portion (1)	$930,367	$936	$431	$-	$929,000
Capital lease obligations, including current portion	4,690	636	1,246	1,755	1,053
Interest on long-term debt	186,357	34,455	68,925	68,750	14,227
Operating leases	43,924	9,497	15,282	13,280	5,865
Total contractual cash obligations (2)	$1,165,338	$45,524	$85,884	$83,785	$950,145

(1) The Term Loan originally provided for a $1.2 billion term loan B credit facility and includes a $300.0 million uncommitted incremental term loan facility. The Term Loan matures on May 31, 2023. The Amended ABL Facility provides for a $250.0 million senior secured ABL revolving credit facility, which matures on May 29, 2020. There was no outstanding balance on the Amended ABL Facility as of December 31, 2017.

(2) Pension obligations are excluded from this table as we are unable to estimate the timing of payment due to the inherent assumptions underlying the obligation. However, at a minimum, the Company estimates we will contribute $0.3 million to our pension plans in 2018.

Capital Expenditures

Our operations require capital expenditures for technology, tooling, equipment, capacity expansion, systems and upgrades. Capital expenditures were $33.3 million, $30.5 million and $30.7 million for the years ended December 31, 2017, 2016 and 2015, respectively, and were funded through cash from operations.

Off-Balance Sheet Arrangements

We have an arrangement with a finance company to provide floor plan financing for selected dealers. This arrangement provides liquidity for our dealers by financing dealer purchases of products with credit availability from

the finance company. We receive payment from the finance company after shipment of product to the dealer and our dealers are given a longer period of time to pay the finance provider. If our dealers do not pay the finance company, we may be required to repurchase the applicable inventory held by the dealer. We do not indemnify the finance company for any credit losses they may incur.

Total inventory financed under this arrangement accounted for approximately 9% and 8% of net sales for the years ended December 31, 2017 and 2016, respectively. The amount financed by dealers which remained outstanding was $36.5 million and $33.9 million as of December 31, 2017 and 2016, respectively.

Critical Accounting Policies

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

Goodwill and Other Indefinite-Lived Intangible Assets

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

The Company performed the required annual impairment tests for goodwill and other indefinite-lived intangible assets for the fiscal years 2017, 2016 and 2015, and found no impairment following the 2017 and 2016 tests. There were no reporting units with a carrying value at-risk of exceeding fair value as of the October 31, 2017 impairment test date.

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

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

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

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

If management's estimates of future operating results change or if there are changes to other assumptions due to these factors, the estimate of the fair values may change significantly. Such change could result in impairment charges in

future periods, which could have a significant impact on our operating results and financial condition.

Business Combinations and Purchase Accounting

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

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Defined Benefit Pension Obligations

The Company's pension benefit obligation and related pension expense or income are calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 715-30, *Defined Benefit Plans—Pension*, and are impacted by certain actuarial assumptions, including the discount rate and the expected rate of return on plan assets. Such rates are evaluated on an annual basis considering factors including market interest rates and historical asset performance. Actuarial valuations for fiscal year 2017 used a discount rate of 3.60% for the salaried pension plan and 3.62% for the hourly pension plan. Our discount rate was selected using a methodology that matches plan cash flows with a selection of "Aa" or higher rated bonds, resulting in a discount rate that better matches a bond yield curve with comparable cash flows. In estimating the expected return on plan assets, we study historical markets and preserve the long-term historical relationships between equities and fixed-income securities. We evaluate current market factors such as inflation and interest rates before we determine long-term capital market assumptions and review peer data and historical returns to check for reasonableness and appropriateness. Changes in the discount rate and return on assets can have a significant effect on the funded status of our pension plans, stockholders' equity and related expense. We cannot predict these changes in discount rates or investment returns and, therefore, cannot reasonably estimate whether the impact in subsequent years will be significant.

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

Our funding policy for our pension plans is to contribute amounts at least equal to the minimum annual amount required by applicable regulations. Given this policy, we expect to make $0.3 million in contributions to our pension plans in 2018, at a minimum.

Income Taxes

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

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

Refer to Note 13, “Income Taxes” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Company’s income taxes and the impact of the Tax Act.

New Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency

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

The following is a summary of the twenty-eight foreign currency contracts outstanding as of December 31, 2017 (in thousands):

Currency Denomination	Trade Dates	Effective Dates	Notional Amount	Expiration Date
GBP	9/26/17 - 12/20/17	9/26/17 - 12/20/17	14,756	1/10/18 - 3/17/18

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Commodity Prices

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

Periodically, we engage in certain commodity risk management activities to mitigate the impact of potential price fluctuations on our financial results. These derivatives typically have maturities of less than eighteen months. As of December 31, 2017, we had the following commodity forward contract outstanding (in thousands):

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

Interest Rates

As of December 31, 2017, all of the outstanding debt under our Term Loan was subject to floating interest rate risk. As of December 31, 2017, we had the following interest rate swap contracts outstanding (in thousands):

Hedged Item	Contract Date	Effective Date	Notional Amount	Fixed LIBOR Rate	Expiration Date
Interest Rate	October 23, 2013	July 1, 2014	$100,000	1.7420%	July 2, 2018
Interest Rate	October 23, 2013	July 1, 2014	100,000	1.7370%	July 2, 2018
Interest Rate	May 19, 2014	July 1, 2014	100,000	1.6195%	July 2, 2018
Interest Rate	June 19, 2017	July 2, 2018	125,000	1.6543%	July 1, 2019
Interest Rate	June 19, 2017	July 1, 2019	125,000	1.9053%	July 1, 2020
Interest Rate	June 19, 2017	July 1, 2020	125,000	2.1328%	July 1, 2021

Interest Rate	June 19, 2017	July 1, 2021	125,000	2.3453%	July 1, 2022
Interest Rate	June 19, 2017	July 1, 2022	125,000	2.4828%	May 31, 2023
Interest Rate	June 30, 2017	July 1, 2018	125,000	1.7090%	July 1, 2019
Interest Rate	June 30, 2017	July 1, 2019	125,000	1.9750%	July 1, 2020
Interest Rate	June 30, 2017	July 1, 2020	125,000	2.2170%	July 1, 2021
Interest Rate	June 30, 2017	July 1, 2021	125,000	2.4360%	July 1, 2022
Interest Rate	June 30, 2017	July 1, 2022	125,000	2.5910%	May 31, 2023
Interest Rate	August 9, 2017	July 1, 2018	125,000	1.6298%	July 1, 2019
Interest Rate	August 9, 2017	July 1, 2019	125,000	1.8598%	July 1, 2020
Interest Rate	August 9, 2017	July 1, 2020	125,000	2.0848%	July 1, 2021
Interest Rate	August 9, 2017	July 1, 2021	125,000	2.3010%	July 1, 2022
Interest Rate	August 9, 2017	July 1, 2022	125,000	2.4848%	May 31, 2023
Interest Rate	August 30, 2017	July 1, 2018	125,000	1.5503%	July 1, 2019
Interest Rate	August 30, 2017	July 1, 2019	125,000	1.7553%	July 1, 2020
Interest Rate	August 30, 2017	July 1, 2020	125,000	1.9803%	July 1, 2021
Interest Rate	August 30, 2017	July 1, 2021	125,000	2.2228%	July 1, 2022
Interest Rate	August 30, 2017	July 1, 2022	125,000	2.4153%	May 31, 2023

At December 31, 2017, the fair value of these interest rate swaps was an asset of $4.4 million. Even after giving effect to these swaps, we are exposed to risks due to changes in interest rates with respect to the portion of our Term Loan that is not covered by the swaps. A hypothetical change in the LIBOR interest rate of 100 basis points would have changed annual cash interest expense by approximately $6.3 million (or, without the swaps in place, $9.3 million) in 2017.

For additional information on the Company's foreign currency and commodity forward contracts, and interest rate swaps, including amounts charged to the statement of comprehensive income during 2017, refer to Note 4, "Derivative Instruments and Hedging Activities," and Note 5, "Accumulated Other Comprehensive Loss," to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Generac Holdings Inc.

Waukesha, Wisconsin

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Generac Holdings Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes, collectively referred to as the "financial statements". In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2018 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Milwaukee, WI

February 26, 2018

We have served as the Company’s auditor since 2016.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Generac Holdings Inc.

Waukesha, Wisconsin

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

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

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

/s/ Ernst & Young LLP

Milwaukee, WI

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

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Generac Holdings Inc.

Waukesha, Wisconsin

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Generac Holdings Inc. and its subsidiaries (the "Company") as of December 31, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2017, of the Company and our report dated February 26, 2018 expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Milwaukee, WI

February 26, 2018

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

	December 31,	
	2017	**2016**
Assets		
Current assets:		
Cash and cash equivalents	$*138,472*	$*67,272*
Accounts receivable, less allowance for doubtful accounts of $4,805 and $5,642 at December 31, 2017 and 2016, respectively	*280,002*	*241,857*
Inventories	*380,341*	*349,731*
Prepaid expenses and other assets	*19,741*	*24,649*
Total current assets	*818,556*	*683,509*
Property and equipment, net	*230,380*	*212,793*
Customer lists, net	*41,064*	*45,312*
Patents, net	*39,617*	*48,061*
Other intangible assets, net	*2,401*	*2,925*
Tradenames, net	*152,683*	*158,874*
Goodwill	*721,523*	*704,640*
Deferred income taxes	*3,238*	*3,337*
Other assets	*10,502*	*2,233*
Total assets	$*2,019,964*	$*1,861,684*
Liabilities and stockholders' equity		
Current liabilities:		
Short-term borrowings	$*20,602*	$*31,198*
Accounts payable	*233,639*	*181,519*
Accrued wages and employee benefits	*27,992*	*21,189*
Other accrued liabilities	*105,067*	*93,068*
Current portion of long-term borrowings and capital lease obligations	*1,572*	*14,965*
Total current liabilities	*388,872*	*341,939*
Long-term borrowings and capital lease obligations	*906,548*	*1,006,758*

Deferred income taxes	*43,789*	*17,278*
Other long-term liabilities	*76,995*	*61,459*
Total liabilities	*1,416,204*	*1,427,434*
Redeemable noncontrolling interest	*43,929*	*33,138*
Stockholders' equity:		
Common stock, par value $0.01, 500,000,000 shares authorized, 70,820,173 and 70,261,481 shares issued at December 31, 2017 and 2016, respectively	*708*	*702*
Additional paid-in capital	*459,816*	*449,049*
Treasury stock, at cost, 8,448,874 and 7,564,874 shares at December 31, 2017 and 2016, respectively	*(294,005*)	*(262,402*)
Excess purchase price over predecessor basis	*(202,116*)	*(202,116*)
Retained earnings	*616,347*	*456,052*
Accumulated other comprehensive loss	*(21,198*)	*(40,163*)
Stockholders' equity attributable to Generac Holdings Inc.	*559,552*	*401,122*
Noncontrolling interests	*279*	*(10*)
Total stockholders' equity	*559,831*	*401,112*
Total liabilities and stockholders' equity	$*2,019,964*	$*1,861,684*

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Net sales	$ *1,672,445*	$ *1,444,453*	$ *1,317,299*
Costs of goods sold	*1,090,328*	*930,347*	*857,349*
Gross profit	*582,117*	*514,106*	*459,950*
Operating expenses:			
Selling and service	*171,755*	*164,607*	*130,242*
Research and development	*42,925*	*37,229*	*32,922*
General and administrative	*87,512*	*74,700*	*52,947*
Amortization of intangibles	*28,861*	*32,953*	*23,591*
Tradename and goodwill impairment	–	–	*40,687*
Total operating expenses	*331,053*	*309,489*	*280,389*
Income from operations	*251,064*	*204,617*	*179,561*
Other (expense) income:			
Interest expense	*(42,667)*	*(44,568)*	*(42,843)*
Investment income	*298*	*44*	*123*
Loss on extinguishment of debt	–	*(574)*	*(4,795)*
Loss on change in contractual interest rate	–	*(2,957)*	*(2,381)*
Costs related to acquisition	*(777)*	*(1,082)*	*(1,195)*
Other, net	*(3,230)*	*902*	*(5,487)*
Total other expense, net	*(46,376)*	*(48,235)*	*(56,578)*
Income before provision for income taxes	*204,688*	*156,382*	*122,983*
Provision for income taxes	*43,553*	*57,570*	*45,236*
Net income	*161,135*	*98,812*	*77,747*
Net income attributable to noncontrolling interests	*1,749*	*24*	-
Net income attributable to Generac Holdings Inc.	$ *159,386*	$ *98,788*	$ *77,747*
Net income attributable to common shareholders per common share - basic:	$ *2.58*	$ *1.51*	$ *1.14*
Weighted average common shares outstanding - basic:	*62,040,704*	*64,905,793*	*68,096,051*

Net income attributable to common shareholders per common share - diluted:	$*2.56*	$*1.50*	$*1.12*
Weighted average common shares outstanding - diluted:	*62,642,872*	*65,382,774*	*69,200,297*
Other comprehensive income (loss):			
Foreign currency translation adjustment	$*15,191*	$*(18,545*)	$*(7,624*)
Net unrealized gain (loss) on derivatives	*3,712*	*535*	*(965*)
Pension liability adjustment	*62*	*322*	*1,881*
Other comprehensive income (loss)	*18,965*	*(17,688*)	*(6,708*)
Total comprehensive income	*180,100*	*81,124*	*71,039*
Comprehensive income (loss) attributable to noncontrolling interests	*5,549*	*(973*)	–
Comprehensive income attributable to Generac Holdings Inc.	$*174,551*	$*82,097*	$*71,039*

See notes to consolidated financial statements.

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

	Generac Holdings Inc.									
	Common Stock		Additional Paid-In	Treasury Stock		Excess Purchase Price Over *Predecessor*	Retained	Accumulated Other Comprehensive	Total Stockholders'	No
	Shares	Amount	Capital	Shares	Amount	Basis	Earnings	Income (Loss)	Equity	Int
Balance at December 31, 2014	*69,122,271*	$*691*	$*434,906*	*(198,312)*	$*(8,341)*	$*(202,116)*	$*280,426*	$*(15,767)*	$*489,799*	$-
Unrealized loss on interest rate swaps, net of tax of $(609)	–	–	–	–	–	–	–	*(965)*	*(965)*	–
Foreign currency translation adjustment	–	–	–	–	–	–	–	*(7,624)*	*(7,624)*	–
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	*460,398*	*5*	*(9,626)*	–	–	–	–	–	*(9,621)*	–
Net share settlement of restricted stock awards	–	–	–	*(65,763)*	*(3,233)*	–	–	–	*(3,233)*	–
	–	–	–	*(3,303,500)*	*(99,942)*	–	–	–	*(99,942)*	–

Stock repurchases										
Excess tax benefits from equity awards	–	–	9,559	–	–	–	–	–	9,559	–
Share-based compensation	–	–	8,241	–	–	–	–	–	8,241	–
Dividends declared	–	–	29	–	–	–		–	29	–
Pension liability adjustment, net of tax of $1,176	–	–	–	–	–	–	–	1,881	1,881	–
Net income	–	–	–	–	–	–	77,747	–	77,747	–
Balance at December 31, 2015	69,582,669	$696	$443,109	(3,567,575)	$(111,516)	$(202,116)	$358,173	$(22,475)	$465,871	$-
Acquisition of business	–	–	–	–	–	–	–	–	–	5
Unrealized gain on interest rate swaps, net of tax of $341	–	–	–	–	–	–	–	535	535	–
Foreign currency translation adjustment	–	–	–	–	–	–	–	(18,545)	(18,545)	1
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	678,812	6	(11,473)	–	–	–	–	–	(11,467)	–
Net share settlement of restricted stock awards	–	–	–	(28,593)	(949)	–	–	–	(949)	–
Stock repurchases	–	–	–	(3,968,706)	(149,937)	–	–	–	(149,937)	–
Excess tax benefits from equity awards	–	–	7,920	–	–	–	–	–	7,920	–
Share-based compensation	–	–	9,493	–	–	–	–	–	9,493	–
Pension liability	–	–	–	–	–	–	–	322	322	–

adjustment, net of tax of $207										
Redemption value adjustment	–	–	–	–	–	–	*(909)*	–	*(909)*	–
Net income	–	–	–	–	–	–	*98,788*	–	*98,788*	*(7*
Balance at December 31, 2016	*70,261,481*	$*702*	$*449,049*	*(7,564,874)*	$*(262,402)*	$*(202,116)*	$*456,052*	$*(40,163)*	$*401,122*	$*(1*
Change in noncontrolling interest share	–	–	*(2,124)*	–	–	–	–	–	*(2,124)*	*1*
Unrealized gain on interest rate swaps, net of tax of $2,384	–	–	–	–	–	–	–	*3,712*	*3,712*	–
Foreign currency translation adjustment	–	–	–	–	–	–	–	*15,191*	*15,191*	*(1*
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	*558,692*	*6*	*2,686*	–	–	–	–	–	*2,692*	–
Net share settlement of restricted stock awards	–	–	–	*(39,500)*	*(1,591)*	–	–	–	*(1,591)*	–
Stock repurchases	–	–	–	*(844,500)*	*(30,012)*	–	–	–	*(30,012)*	–
Share-based compensation	–	–	*10,205*	–	–	–	–	–	*10,205*	–
Pension liability adjustment, net of tax of $21	–	–	–	–	–	–	–	*62*	*62*	–
Redemption value adjustment	–	–	–	–	–	–	*909*	–	*909*	–
Net income	–	–	–	–	–	–	*159,386*	–	*159,386*	*1*
Balance at December 31, 2017	*70,820,173*	$*708*	$*459,816*	*(8,448,874)*	$*(294,005)*	$*(202,116)*	$*616,347*	$*(21,198)*	$*559,552*	$*2*

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Operating activities			
Net income	$*161,135*	$*98,812*	$*77,747*
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation	*23,127*	*21,465*	*16,742*
Amortization of intangible assets	*28,861*	*32,953*	*23,591*
Amortization of original issue discount and deferred financing costs	*3,516*	*3,940*	*5,429*
Tradename and goodwill impairment	–	–	*40,687*
Loss on extinguishment of debt	–	*574*	*4,795*
Loss on change in contractual interest rate	–	*2,957*	*2,381*
Deferred income taxes	*21,439*	*39,347*	*26,955*
Share-based compensation expense	*10,205*	*9,493*	*8,241*
Other	*410*	*127*	*540*
Net changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	*(29,771*)	*(9,082*)	*9,610*
Inventories	*(16,278*)	*15,514*	*9,084*
Other assets	*(14,783*)	*406*	*5,063*
Accounts payable	*42,788*	*32,908*	*(27,771*)
Accrued wages and employee benefits	*6,105*	*5,196*	*(5,361*)
Other accrued liabilities	*27,514*	*6,719*	*445*
Excess tax benefits from equity awards	*(3,152*)	*(7,920*)	*(9,559*)
Net cash provided by operating activities	*261,116*	*253,409*	*188,619*
Investing activities			
Proceeds from sale of property and equipment	*82*	*1,360*	*105*
Expenditures for property and equipment	*(33,261*)	*(30,467*)	*(30,651*)
Acquisition of business, net of cash acquired	*1,257*	*(61,386*)	*(73,782*)
Deposit paid related to acquisition	–	*(15,329*)	–
Net cash used in investing activities	*(31,922*)	*(105,822*)	*(104,328*)
Financing activities			
Proceeds from short-term borrowings	*101,991*	*28,712*	*26,384*
Proceeds from long-term borrowings	*3,069*	–	*100,000*

Repayments of short-term borrowings	*(114,874)*	*(27,755)*	*(23,149)*
Repayments of long-term borrowings and capital lease obligations	*(117,475)*	*(37,627)*	*(150,826)*
Stock repurchases	*(30,012)*	*(149,937)*	*(99,942)*
Payment of debt issuance costs	*(3,901)*	*(4,557)*	*(2,117)*
Cash dividends paid	*–*	*(76)*	*(1,436)*
Taxes paid related to equity awards	*(5,892)*	*(14,008)*	*(12,956)*
Proceeds from the exercise of stock options	*6,951*	*1,623*	*–*
Excess tax benefits from equity awards	*–*	*7,920*	*9,559*
Net cash used in financing activities	*(160,143)*	*(195,705)*	*(154,483)*
Effect of exchange rate changes on cash and cash equivalents	*2,149*	*(467)*	*(3,712)*
Net increase (decrease) in cash and cash equivalents	*71,200*	*(48,585)*	*(73,904)*
Cash and cash equivalents at beginning of period	*67,272*	*115,857*	*189,761*
Cash and cash equivalents at end of period	$*138,472*	$*67,272*	$*115,857*
Supplemental disclosure of cash flow information			
Cash paid during the period			
Interest	$*41,105*	$*42,456*	$*39,524*
Income taxes	*23,836*	*8,889*	*6,087*

See notes to consolidated financial statements.

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Generac Holdings Inc.
Notes to Consolidated Financial Statements

Years Ended December 31, 2017, 2016, and 2015

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

1. Description of Business

Founded in *1959,* Generac Holdings Inc. (the Company) is a leading 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. Generac's power products are available globally through a broad network of independent dealers, distributors, retailers, wholesalers and equipment rental companies, as well as sold direct to certain end user customers.

Over the years, the Company has executed a number of acquisitions that support its strategic plan (refer to Item *1* in this Annual Report on Form *10*-K for discussion of our Powering Ahead strategic plan). A summary of recent acquisitions include the following:

In *August 2013,* the Company acquired the equity of Tower Light SRL and its wholly-owned subsidiaries (Tower Light). Headquartered outside Milan, Italy, Tower Light is a leading developer and supplier of mobile light towers throughout the world.
In *November 2013,* the Company purchased the assets of Baldor Electric Company's generator division (Baldor Generators). Baldor Generators offers a complete line of power generation equipment throughout North America with power output up to *2.5MW,* which expanded the Company's commercial and industrial product lines.
In *September 2014,* the Company acquired the equity of Pramac America LLC (Powermate), resulting in the ownership of the Powermate trade name and the right to license the DeWalt brand name for certain residential engine powered tools. This acquisition expanded Generac's residential product portfolio in the portable generator category.
In *October 2014,* the Company acquired MAC, Inc. (MAC). MAC is a leading manufacturer of premium-grade commercial and industrial mobile heaters for the United States and Canadian markets. The acquisition expanded the Company's portfolio of mobile power products and provides increased access to the oil & gas market.
In *August 2015,* the Company acquired Country Home Products and its subsidiaries (CHP). CHP is a leading manufacturer of high-quality, innovative, professional-grade engine powered equipment used in a wide variety of property maintenance applications, which are primarily sold in North America under the DR® Power Equipment brand. The acquisition provided an expanded product lineup and additional scale to the Company's residential engine powered products.
In *March 2016,* the Company acquired a majority ownership interest in PR Industrial S.r.l and its subsidiaries (Pramac). Headquartered in Siena, Italy, Pramac is a leading global manufacturer of stationary, mobile and portable generators primarily sold under the Pramac® brand. Pramac products are sold in over *150* countries through a broad distribution network.

In *January 2017,* the Company acquired Motortech GmbH (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. While the Motortech acquisition was completed in *January 2017,* it was funded in the *fourth* quarter of *2016.*

2. Significant Accounting Policies

Principles of Consolidation

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

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One customer accounted for approximately *7%* and *9%* of accounts receivable at *December 31, 2017* and *2016,* respectively. *No one* customer accounted for greater than *6%, 7%* and *7%,* of net sales during the years ended *December 31, 2017, 2016,* or *2015,* respectively.

Accounts Receivable

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

Inventories

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

Property and Equipment

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

Land improvements	*8* -20
Buildings and improvements	*10*-40
Machinery and equipment	*3* -15
Dies and tools	*3* -10
Vehicles	*3* -6
Office equipment and systems	*3* -15
Leasehold improvements	*2* -20

Total depreciation expense was *$23,127, $21,465,* and *$16,742* for the years ended *December 31, 2017, 2016,* and *2015,* respectively.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill represents the excess of the purchase price over fair value of identifiable net assets acquired from business acquisitions. Goodwill is *not* amortized, but is reviewed for impairment on an annual basis and between annual tests if indicators of impairment are present. The Company evaluates goodwill for impairment annually as of *October 31* or more frequently when an event occurs or circumstances change that indicates the carrying value *may not* be recoverable. The Company has the option to assess goodwill for impairment by performing either a qualitative assessment or quantitative test. The qualitative assessment determines whether it is more likely than *not* that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is *not* more likely than *not* that the fair value of a reporting unit is less than its carrying amount, then the quantitative test is *not* required to be performed. If the Company determines that it is more likely than *not* that the fair value of a reporting unit is less than its carrying amount, the Company is required to perform the quantitative test. In the quantitative test, the calculated fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is *not* impaired. If the fair value of the reporting unit is less than its book value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Other indefinite-lived intangible assets consist of certain tradenames. The Company tests the carrying value of these tradenames annually as of *October 31* or more frequently when an event occurs or circumstances change that indicates the carrying value *may not* be recoverable by comparing the assets’ fair value to its carrying value. Fair value is measured using a relief-from-royalty approach, which assumes the fair value of the tradename is the discounted cash flows of the amount that would be paid had the Company *not* owned the tradename and instead licensed the tradename from another company.

The Company performed the required annual impairment tests for goodwill and other indefinite-lived intangible assets for the fiscal years *2017, 2016* and *2015,* and found *no* impairment following the *2017* and *2016* tests. There were *no* reporting units with a carrying value at-risk of exceeding fair value as of the *October 31, 2017* impairment test date.

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

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

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

Impairment of Long-Lived Assets

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

Debt Issuance Costs

Debt discounts and direct costs incurred in connection with the issuance of long-term debt are deferred and recorded as a reduction of outstanding debt and amortized to interest expense using the effective interest method over the terms of the related credit agreements. $*3,516, $3,939,* and *$5,429* of deferred financing costs and original issue discount were amortized to interest expense during fiscal years *2017, 2016* and *2015,* respectively. Excluding the impact of any future long-term debt issuances or prepayments, estimated amortization to interest expense for the next *five* years is as

follows: *2018 - $4,798; 2019 - $4,982; 2020 - $4,936; 2021 - $4,931; 2022 - $5,099.*

Income Taxes

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

Revenue Recognition

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

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

Shipping and Handling Costs

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

Advertising and Co-Op Advertising

Expenditures for advertising, included in selling and service expenses in the consolidated statements of comprehensive income, are expensed as incurred. Total expenditures for advertising were *$45,926, $45,488,* and *$39,258* for the years ended *December 31, 2017, 2016,* and *2015,* respectively.

Research and Development

The Company expenses research and development costs as incurred. Total expenditures incurred for research and development were *$42,925, $37,229,* and *$32,922* for the years ended *December 31, 2017, 2016* and *2015,* respectively.

Foreign Currency Translation and Transactions

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

Fair Value of Financial Instruments

ASC *820-10*, *Fair Value Measurement,* defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring

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

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings and ABL facility borrowings), excluding Term Loan borrowings, approximates the fair value of these instruments based upon their short-term nature. The fair value of Term Loan borrowings, which have an aggregate carrying value of *$902,959,* was approximately *$903,500* (Level *2*) at *December 31, 2017,* as calculated based on independent valuations whose inputs and significant value drivers are observable.

For the fair value of the assets and liabilities measured on a recurring basis, refer to the fair value table in Note *4,* "Derivative Instruments and Hedging Activities," to the 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 considers the Company's credit risk in accordance with ASC *820-10.*

Use of Estimates

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

Derivative Instruments and Hedging Activities

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

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Share-Based Compensation

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

New Accounting Pronouncements

In *May 2014,* the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) *2014-09, Revenue from Contracts with Customers*. This guidance is the culmination of the FASB's joint project with the International Accounting Standards Board to clarify the principles for recognizing revenue. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a *five*-step process that entities should follow in order to achieve that core principal. ASU *2014-09,* as amended by ASU *2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, ASU *2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations*, ASU *2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,* ASU *2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and ASU *2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, becomes effective for the Company in *2018.* The guidance can be applied either on a full retrospective basis or on a modified retrospective basis in which the cumulative effect of initially applying the standard is recognized at the date of initial application. The Company has completed its assessment of the impacts the standard will have on its financial statements, and determined that the adoption does *not* have a material impact. In all material respects, the Company has identified a similar amount of performance obligations under the new guidance as compared with deliverables previously identified. As a result, the timing of revenue recognition will generally remain the same. The Company adopted the standard *January 1, 2018* and will use the full retrospective method.

In *February 2016,* the FASB issued ASU *2016-02, Leases*. This guidance is being issued to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the 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,* 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.

In *August 2016,* the FASB issued ASU *2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. This guidance is being issued to decrease diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance should be applied on a

retrospective basis and is effective for the Company in *2018,* with early adoption permitted. The Company does *not* believe that the adoption of this guidance will have a significant impact on the presentation of the statement of cash flows.

In *January 2017,* the FASB issued ASU *2017-04, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. This guidance was issued to simplify the subsequent measurement of goodwill by eliminating Step *2* of the goodwill impairment test. Under the new guidance, the recognition of a goodwill impairment charge is calculated based on the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should *not* exceed the total amount of goodwill allocated to that reporting unit. This guidance should be applied on a prospective basis and is effective for the Company in *2020.* The Company has early adopted this standard, which did *not* have a significant impact on its consolidated financial statements.

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. For existing hedges, this guidance should be applied using a cumulative effect adjustment, while the presentation and disclosure guidance should be adopted on a prospective basis. 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 the *first* quarter of *2017,* the Company adopted ASU *2016-09, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The primary impact of adoption is the prospective recognition of excess tax benefits or deficiencies within the provision for income taxes on the consolidated statement of comprehensive income rather than within additional paid-in capital on the consolidated balance sheet. Further, the Company has elected to continue to estimate forfeitures expected to occur to determine the amount of stock compensation expense recognized each period. The Company also elected to apply the presentation requirements for cash flows related to excess tax benefits or deficiencies prospectively. The presentation requirements for cash flows related to employee taxes paid in exchange for withheld shares had *no* impact to any period presented on the consolidated statements of cash flows as such cash flows have historically been presented as a financing activity. There were *no* cumulative effect adjustments made to equity as of the beginning of the fiscal period, as those provisions of ASU *2016-09* were *not* applicable or had *no* impact to the Company.

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

3. Acquisitions

Acquisition of Pramac

On *March 1, 2016,* the Company acquired a *65%* ownership interest in Pramac for a purchase price, net of cash acquired, of *$60,250.* Headquartered in Siena, Italy, Pramac is a leading global manufacturer of stationary, mobile and portable generators primarily sold under the Pramac® brand. Pramac products are sold in over *150* countries through a broad distribution network. The acquisition purchase price was funded solely through cash on hand.

The *35%* noncontrolling interest in Pramac had an acquisition date fair value of *$34,253,* and was recorded as a redeemable noncontrolling interest in the consolidated balance sheet, as the noncontrolling interest holder has within its control the right to require the Company to redeem its interest in Pramac. The noncontrolling interest holder has a put option to sell their interests to the Company any time within *five* years from the date of acquisition. The put option price is either (i) a fixed amount if voluntarily exercised within the *first two* years after the acquisition, or (ii) based on a multiple of earnings, subject to the terms of the acquisition. Additionally, the Company holds a call option that it *may* redeem commencing *five* years from the date of acquisition, or earlier upon the occurrence of certain circumstances. The call option price is based on a multiple of earnings that is subject to the terms of the acquisition. Both the put and call option only provide for the complete transfer of the noncontrolling interest, with *no* partial transfers of interest permitted.

The redeemable noncontrolling interest is recorded at the greater of the initial fair value, increased or decreased for the noncontrolling interests' share of comprehensive net income (loss), or the estimated redemption value, with any adjustment to the redemption value impacting retained earnings, but *not* net income. However, the redemption value adjustments are reflected in the earnings per share calculation, as detailed in Note *12,* "Earnings Per Share," to the consolidated financial statements. The following table presents the changes in the redeemable noncontrolling interest:

	Year Ended December 31,	
	2017	**2016**
Balance at beginning of period	$*33,138*	$ -
Noncontrolling interest of Pramac	*1,540* *(1)*	*34,253*
Net income	*1,631*	*100*
Foreign currency translation	*8,529*	*(2,124*)
Redemption value adjustment	*(909* *)*	*909*
Balance at end of period	$*43,929*	$*33,138*

(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.

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The Company finalized the Pramac purchase price allocation during the *first* quarter of *2017,* based upon its estimates of the fair value of the acquired assets and assumed liabilities. The final purchase price allocation as of the balance sheet date was as follows:

	March 1, 2016
Accounts receivable	$*50,716*
Inventories	*39,889*
Property and equipment	*19,138*
Intangible assets	*34,471*
Goodwill	*46,775*
Other assets	*7,698*
Total assets acquired	*198,687*
Short-term borrowings	*21,741*
Accounts payable	*40,270*
Long-term debt and capital lease obligations (including current portion)	*18,599*
Other liabilities	*23,521*
Redeemable noncontrolling interest	*34,253*
Noncontrolling interest	*53*
Net assets acquired	$*60,250*

The goodwill ascribed to this acquisition is *not* deductible for tax purposes. The accompanying consolidated financial statements include the results of Pramac from the date of acquisition through *December 31, 2017.*

Acquisition of CHP

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

The Company finalized the CHP purchase price allocation during the *fourth* quarter of *2015* based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately *$75,174* of intangible assets, including approximately *$36,284* of goodwill, as of the acquisition date. The goodwill ascribed to this acquisition is *not* deductible for tax purposes. In addition, the Company assumed *$12,000* of debt along with this acquisition. The accompanying consolidated financial statements include the results of CHP from the date of acquisition through *December 31, 2017.*

Pro Forma Information

The following unaudited pro forma information of the Company gives effect to these acquisitions as though the transactions had occurred on *January 1, 2015.* Consolidated net sales on a pro forma basis for the years ended *December 31, 2016* and *2015* were *$1,473,799* and *$1,566,459,* respectively. The pro forma impact of these acquisitions on net income and earnings per share for both the years ended *December 31, 2016* and *2015* is *not* significant due to amortization related to acquired intangible assets and the fair value step-up of inventory in purchase accounting. This unaudited pro forma information is presented for informational purposes only and is *not* necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated on *January 1, 2015.*

4. **Derivative Instruments and Hedging Activities**

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 and its economic well-being. These derivatives typically have maturities of less than *eighteen* months. At both *December 31, 2017* and *2016,* the Company had *one* commodity contract outstanding, covering the purchases of copper.

Because these contracts do *not* qualify for hedge accounting, the related gains and losses are recorded in cost of goods sold in the Company's consolidated statements of comprehensive income. Net pre-tax gains (losses) recognized were *$377, $739* and $(*1,909*) for the years ended *December 31, 2017, 2016,* and *2015,* respectively.

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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 *December 31, 2017* and *2016,* the Company had *twenty-eight* and *thirty-eight* 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 consolidated statements of comprehensive income. Net pre-tax gains (losses) recognized for the years ended *December 31, 2017, 2016* and *2015* were *$697,* $(*385*) and $(*624*), 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 *twenty* 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 these hedge transactions. These interest rate swap agreements qualify as cash flow hedges, and accordingly, the effective portions of the gains or losses are reported as a component of accumulated other comprehensive loss (AOCL) in the consolidated balance sheets. The amount of gains (losses) recognized for the years ended December 31, 2017, 2016 and 2015 were $3,712, $535 and $(965), 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 the Company's derivatives:

	December 31, 2017	**December 31, 2016**
Commodity contracts	$ *107*	$ *623*
Foreign currency contracts	*167*	*(150*)

Interest rate swaps	*4,356*	*(1,739*)

The fair value of the commodity and foreign currency contracts are included in prepaid expenses and other assets, and the fair value of the interest rate swaps are included in other assets in the consolidated balance sheet as of *December 31, 2017.* The fair value of the commodity contract is included in other assets, the fair value of the foreign currency contracts are included in other accrued liabilities, and the fair value of the interest rate swaps are included in other long-term liabilities in the consolidated balance sheet as of *December 31, 2016.* Excluding the impact of credit risk, the fair value of the derivative contracts as of *December 31, 2017* and *2016* is an asset of *$4,703* and a liability of *$1,295,* respectively, which represents the amount the Company would receive or need to pay to exit the agreements on those dates.

5. Accumulated Other Comprehensive Loss

The following presents a tabular disclosure of changes in AOCL during the years ended *December 31, 2017* and *2016,* net of tax:

	Foreign Currency Translation Adjustments	**Defined Benefit Pension Plan**	**Unrealized Gain (Loss) on Cash Flow Hedges**	**Total**
Beginning Balance – January 1, 2017	$ *(28,047*)	$*(11,040*)	$ *(1,076*)	$*(40,163*)
Other comprehensive income (loss) before reclassifications	*15,191*	*(591*)*(1)*	*3,712* *(2)*	*18,312*
Amounts reclassified from AOCL	-	*653* *(3)*	-	*653*
Net current-period other comprehensive income	*15,191*	*62*	*3,712*	*18,965*
Ending Balance – December 31, 2017	$ *(12,856*)	$*(10,978*)	$ *2,636*	$*(21,198*)

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	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan		Unrealized Gain (Loss) on Cash Flow Hedges		Total
Beginning Balance – January 1, 2016	$ *(9,502)*	$*(11,362)*		$ *(1,611)*		$*(22,475)*
Other comprehensive income (loss) before reclassifications	*(18,545)*	*(273)*	*(4)*	*535*	*(5)*	*(18,283)*
Amounts reclassified from AOCL	-	*595*	*(6)*	-		*595*
Net current-period other comprehensive income (loss)	*(18,545)*	*322*		*535*		*(17,688)*
Ending Balance – December 31, 2016	$ *(28,047)*	$*(11,040)*		$ *(1,076)*		$*(40,163)*

(*1*) Represents unrecognized actuarial losses of $(*800*), net of tax benefit of *$209,* included in the computation of net periodic pension cost for the year ended *December 31, 2017.* Refer to Note *14,* "Benefit Plans," to the consolidated financial statements for additional information.

(*2*) Represents unrealized gains of *$6,096,* net of tax effect of $(*2,384*) for the year ended *December 31, 2017.*

(*3*) Represents actuarial losses of *$883,* net of tax effect of $(*230*), amortized to net periodic pension cost for the year ended *December 31, 2017.* Refer to Note *14,* "Benefit Plans," to the consolidated financial statements for additional information.

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

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

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

6. 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 that are based in the United States, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the Ottomotores, Tower Light, Pramac and Motortech acquisitions, all of which have revenues that are substantially derived from outside of the U.S and Canada. Both reportable segments design and manufacture a wide range of power generation equipment and other engine powered products. The Company has multiple operating segments, which it aggregates into the *two* reportable segments, based on materially similar economic characteristics, products, production processes, classes of customers and distribution methods. All segment information has been retrospectively applied to all periods presented to reflect the current reportable segment structure.

	Net Sales		
	Year Ended December 31,		
Reportable Segments	**2017**	**2016**	**2015**
Domestic	$*1,296,578*	$*1,173,559*	$*1,204,589*
International	*375,867*	*270,894*	*112,710*
Total	$*1,672,445*	$*1,444,453*	$*1,317,299*

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

	Net Sales		
	Year Ended December 31,		
Product Classes	**2017**	**2016**	**2015**
Residential products	$*870,410*	$*772,436*	$*673,764*
Commercial & industrial products	*685,052*	*557,532*	*548,440*
Other	*116,983*	*114,485*	*95,095*
Total	$*1,672,445*	$*1,444,453*	$*1,317,299*

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

	Adjusted EBITDA		
	Year Ended December 31,		
	2017	**2016**	**2015**
Domestic	$*290,720*	$*261,428*	$*254,882*
International	*27,010*	*16,959*	*15,934*
Total adjusted EBITDA	$*317,730*	$*278,387*	$*270,816*
Interest expense	*(42,667*)	*(44,568*)	*(42,843*)
Depreciation and amortization	*(51,988*)	*(54,418*)	*(40,333*)
Non-cash write-down and other adjustments (1)	*(2,923*)	*(357*)	*(3,892*)
Non-cash share-based compensation expense (2)	*(10,205*)	*(9,493*)	*(8,241*)
Tradename and goodwill impairment (3)	-	-	*(40,687*)
Loss on extinguishment of debt (4)	-	*(574*)	*(4,795*)
Gain (loss) on change in contractual interest rate (5)	-	*(2,957*)	*(2,381*)
Transaction costs and credit facility fees (6)	*(2,145*)	*(2,442*)	*(2,249*)
Business optimization expenses (7)	*(2,912*)	*(7,316*)	*(1,947*)
Other	*(202*)	*120*	*(465*)
Income before provision for income taxes	$*204,688*	$*156,382*	$*122,983*

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

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

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

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

(*5*) For the year ended *December 31, 2016,* represents a non-cash loss relating to the continued *25* basis point increase in borrowing costs as a result of the credit agreement leverage ratio remaining above *3.0* times based on projections at that time. For the year ended *December 31, 2015,* represents a non-cash loss relating to a *25* basis point increase in borrowing costs as a result of the credit agreement leverage ratio rising above *3.0* times and expected to remain above *3.0* times based on projections at that time. Following the May 2017 Term Loan amendment, which removed the pricing grid based on leverage ratio achieved, gains or losses on changes in contractual interest rate will no longer be recorded in the statements of comprehensive income. Refer to Note 10, "Credit Agreements," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the gains and losses on changes in the contractual interest rate.

(*6*) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement; equity issuance, debt issuance or refinancing; together with certain fees relating to our senior secured credit facilities.

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

The following tables summarize additional financial information by reportable segment:

	Assets		
	Year Ended December 31,		
	2017	**2016**	**2015**
Domestic	$*1,606,606*	$*1,521,665*	$*1,605,043*
International	*413,358*	*340,019*	*173,592*
Total	$*2,019,964*	$*1,861,684*	$*1,778,635*

	Depreciation and Amortization		
	Year Ended December 31,		
	2017	**2016**	**2015**
Domestic	$*37,962*	$*42,346*	$*35,327*
International	*14,026*	*12,072*	*5,006*
Total	$*51,988*	$*54,418*	$*40,333*

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	Capital Expenditures Year Ended December 31,		
	2017	**2016**	**2015**
Domestic	$*29,258*	$*26,936*	$*29,368*
International	*4,003*	*3,531*	*1,283*
Total	$*33,261*	$*30,467*	$*30,651*

The Company's sales in the United States represent approximately *74%, 77%,* and *85%* of total sales for the years ended *December 31, 2017, 2016* and *2015,* respectively. Approximately *85%* and *87%* of the Company's identifiable long-lived assets are located in the United States as of *December 31, 2017* and *2016,* respectively.

7. Balance Sheet Details

Inventories consist of the following:

	December 31,	
	2017	**2016**
Raw material	$*242,239*	$*218,911*
Work-in-process	*2,544*	*2,950*
Finished goods	*135,558*	*127,870*
Total	$*380,341*	$*349,731*

As of *December 31, 2017* and *2016*, inventories totaling *$6,245* and *$10,598*, respectively, were on consignment at customer locations.

Property and equipment consists of the following:

	December 31,	
	2017	**2016**
Land and improvements	$*13,118*	$*12,079*
Buildings and improvements	*132,072*	*122,747*
Machinery and equipment	*90,487*	*81,687*
Dies and tools	*24,504*	*23,269*
Vehicles	*1,878*	*1,474*

Office equipment and systems	*73,254*	*66,929*
Leasehold improvements	*2,436*	*2,319*
Construction in progress	*18,799*	*8,654*
Gross property and equipment	*356,548*	*319,158*
Accumulated depreciation	*(126,168)*	*(106,365)*
Total	$*230,380*	$*212,793*

8. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by reportable segment for the years ended *December 31, 2017* and *2016* are as follows:

	Domestic	**International**	**Total**
Balance at December 31, 2015	$*621,451*	$ *48,268*	$*669,719*
Acquisitions of businesses, net	-	*46,202*	*46,202*
Foreign currency translation	-	*(11,281)*	*(11,281)*
Balance at December 31, 2016	*621,451*	*83,189*	*704,640*
Acquisitions of businesses, net	-	*5,271*	*5,271*
Foreign currency translation	-	*11,612*	*11,612*
Balance at December 31, 2017	$*621,451*	$ *100,072*	$*721,523*

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The details of the gross goodwill applicable to each reportable segment at *December 31, 2017* and *2016* are as follows:

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Gross	Accumulated Impairment	Net	Gross	Accumulated Impairment	Net
Domestic	$*1,124,644*	$ *(503,193*)	$*621,451*	$*1,124,644*	$ *(503,193*)	$*621,451*
International	*104,683*	*(4,611*)	*100,072*	*87,800*	*(4,611*)	*83,189*
Total	$*1,229,327*	$ *(507,804*)	$*721,523*	$*1,212,444*	$ *(507,804*)	$*704,640*

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

The following table summarizes intangible assets by major category as of December *31, 2017* and *2016:*

	Weighted Average Amortization Years	December 31, 2017			December 31, 2016		
		Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
Finite-lived intangible assets:							
Tradenames	*9*	$*52,784*	$ *(28,422*)	$*24,362*	$*50,742*	$ *(20,189*)	$*30,553*
Customer lists	*10*	*340,138*	*(299,074*)	*41,064*	*333,935*	*(288,623*)	*45,312*
Patents	*14*	*131,137*	*(91,520*)	*39,617*	*130,099*	*(82,038*)	*48,061*
Unpatented technology	*15*	*13,169*	*(11,915*)	*1,254*	*13,169*	*(11,771*)	*1,398*
Software	-	*1,046*	*(1,046*)	-	*1,046*	*(1,046*)	-
Non-compete/other	*8*	*2,684*	*(1,537*)	*1,147*	*2,513*	*(986*)	*1,527*
Total finite-lived intangible assets		$*540,958*	$ *(433,514*)	$*107,444*	$*531,504*	$ *(404,653*)	$*126,851*
Indefinite-lived tradenames		*128,321*	-	*128,321*	*128,321*	-	*128,321*
Total intangible assets		$*669,279*	$ *(433,514*)	$*235,765*	$*659,825*	$ *(404,653*)	$*255,172*

Refer to Note *2,* "Significant Accounting Policies – Goodwill and Other Indefinite-Lived Intangible Assets," to the consolidated financial statements for further information regarding the Company's *2015* brand strategy change and resulting tradename impairment charge, which was netted against the gross intangible asset balance at *December 31, 2017* and *2016.*

Amortization of intangible assets was *$28,861, $32,953* and *$23,591* in *2017, 2016* and *2015,* respectively. Excluding the impact of any future acquisitions, the Company estimates amortization expense for the next *five* years will be as follows: *2018 - $20,566; 2019 - $18,828; 2020 - $18,737; 2021 - $16,927; 2022 - $9,671.*

9. Product Warranty Obligations

The Company records a liability for product warranty obligations at the time of sale to a customer based upon historical warranty experience. The Company also records a liability for specific warranty matters when they become known and are reasonably estimable. Additionally, the Company sells extended warranty coverage for certain products. The sales of extended warranties are recorded as deferred revenue, which is recognized over the life of the contracts following the standard warranty period.

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Balance at beginning of period	$*31,695*	$*30,197*	$*30,909*
Product warranty reserve assumed in acquisition	*43*	*840*	*351*
Payments	*(18,861)*	*(18,691)*	*(21,686)*
Provision for warranty issued	*21,347*	*19,148*	*20,823*
Changes in estimates for pre-existing warranties	*1,198*	*201*	*(200)*
Balance at end of period	$*35,422*	$*31,695*	$*30,197*

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Balance at beginning of period	$*31,080*	$*28,961*	$*27,193*
Deferred revenue contracts assumed in acquisition	-	-	*291*
Deferred revenue contracts issued (1)	*27,107*	*7,733*	*5,978*
Amortization of deferred revenue contracts	*(7,246*)	*(5,614*)	*(4,501*)
Balance at end of period	$*50,941*	$*31,080*	$*28,961*

(1) The increase in deferred revenue contracts issued during *2017* was largely due to the launch of a post-sale extended warranty program.

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

	December 31,	
	2017	**2016**
Product warranty liability		
Current portion - other accrued liabilities	$*20,576*	$*20,763*
Long-term portion - other long-term liabilities	*14,846*	*10,932*
Total	$*35,422*	$*31,695*
Deferred revenue related to extended warranties		
Current portion - other accrued liabilities	$*10,002*	$*6,728*
Long-term portion - other long-term liabilities	*40,939*	*24,352*
Total	$*50,941*	$*31,080*

10. Credit Agreements

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

	December 31,	
	2017	**2016**
ABL facility	$-	$-
Other lines of credit	*20,602*	*31,198*
Total	$*20,602*	$*31,198*

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

	December 31,	
	2017	**2016**
Term loan	$*929,000*	$*929,000*
Original issue discount and deferred financing costs	*(26,937*)	*(26,677*)
ABL facility	-	*100,000*
Capital lease obligation	*4,690*	*4,647*
Other	*1,367*	*14,753*
Total	*908,120*	*1,021,723*
Less: current portion of debt	*936*	*14,399*
Less: current portion of capital lease obligation	*636*	*566*
Total	$*906,548*	$*1,006,758*

Maturities of long-term borrowings (before considering original issue discount and deferred financing costs) outstanding at *December 31, 2017,* are as follows:

2018	$*1,572*
2019	*1,078*
2020	*599*
2021	*614*
After 2021	*931,194*
Total	$*935,057*

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. In *November 2016,* the Company amended its Term Loan to extend the maturity date from *May 31, 2020* to *May 31, 2023.* The Term Loan is guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and is secured by associated collateral agreements which pledge a *first* priority lien on virtually all of the Company's assets, including fixed assets and intangibles, other than all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, which are secured by a *second* priority lien. The Term Loan initially bore interest at rates based upon either a base rate plus an applicable margin of *1.75%* or adjusted LIBOR rate plus an applicable margin of *2.75%,* subject to a LIBOR floor of *0.75%.* Beginning in the *second* quarter of *2014,* and measured each quarterly period thereafter, the applicable margin related to base rate loans was reduced to *1.50%* and the applicable margin related to LIBOR rate loans is reduced to *2.50%,* in each case, if the Company's net debt leverage ratio, as defined in the Term Loan, falls below *3.00* to *1.00* for that measurement period.

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

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

In *May 2015,* the Company amended certain provisions and covenants of the Term Loan. In connection with this amendment and in accordance with ASC *470-50, Debt Modifications and Extinguishments*, the Company capitalized

$1,528 of fees paid to creditors as deferred financing costs on long-term borrowings and expensed *$49* of transaction fees in the *second* quarter of *2015.*

In *November 2016,* the Company amended its Term Loan to extend the maturity date from *May 31, 2020* to *May 31, 2023.* In connection with this amendment and in accordance with ASC *470-50,* the Company capitalized *$4,242* of fees paid to creditors as original issue discount and deferred financing costs on long-term borrowings and expensed *$315* of transaction fees in the *fourth* quarter of *2016.*

In *May 2017,* the Company amended its 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 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 and expensed *$85* of transaction fees in the *second* quarter of *2017.*

In *December 2017,* the Company amended its 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 will eliminate future requirements if the Company’s secured leverage ratio is 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 and expensed *$38* of transaction fees in the *fourth* quarter of *2017.*

As of *December 31, 2017,* the Company's secured leverage ratio was *2.50* to *1.00* times, and the Company was in compliance with all covenants of the Term Loan. There are *no* financial maintenance covenants on the Term Loan.

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The Company's credit agreements also originally provided for a *$150,000* senior secured ABL revolving credit facility (ABL Facility). The maturity date of the ABL Facility originally was *May 31, 2018.* Borrowings under the ABL Facility are guaranteed by all of the Company's wholly-owned domestic restricted subsidiaries, and are secured by associated collateral agreements which pledge a *first* priority lien on all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, and a *second* priority lien on all other assets, including fixed assets and intangibles of the Company and certain domestic subsidiaries. ABL Facility borrowings initially bore interest at rates based upon either a base rate plus an applicable margin of *1.00%* or adjusted LIBOR rate plus an applicable margin of *2.00%,* in each case, subject to adjustments based upon average availability under the ABL Facility.

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

In *May 2015,* the Company borrowed *$100,000* under the Amended ABL Facility, the proceeds of which were used as a voluntary prepayment towards the Term Loan. In the *fourth* quarter of *2017,* the Company repaid the entire outstanding Amended ABL Facility balance. As of *December 31, 2017,* the Company had *$249,650* of availability under the Amended ABL Facility, net of outstanding letters of credit.

In *March* and *May 2015,* the Company made voluntary prepayments of the Term Loan of *$50,000* and *$100,000,* respectively, which were applied to the Excess Cash Flow payment requirement in the Term Loan. As a result of the prepayments, the Company wrote off *$4,795* of original issue discount and capitalized debt issuance costs during the year ended *December 31, 2015* as a loss on extinguishment of debt in the consolidated statement of comprehensive income. Similarly, in *November 2016,* the Company made a voluntary prepayment of *$25,000,* which resulted in a *$574 write-off* of original issue discount and capitalized debt issuance costs during the year ended *December 31, 2016* as a loss on extinguishment of debt.

As of *December 31, 2017* and *December 31, 2016,* short-term borrowings consisted primarily of borrowings by our foreign subsidiaries on local lines of credit, which totaled *$20,602* and *$31,198,* respectively.

11. 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 repurchase *may* be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's 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 years ended *December 31, 2017, 2016* and *2015,* the Company repurchased *844,500, 3,968,706* and *3,303,500* shares of its common stock, respectively, for *$30,012, $149,937* and *$99,942,* respectively, all funded with cash on hand.

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12. Earnings Per Share

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Numerator			
Net income attributable to Generac Holdings Inc.	$*159,386*	$*98,788*	$*77,747*
Redeemable noncontrolling interest redemption value adjustment	*909*	*(909*)	-
Net income attributable to common shareholders	$*160,295*	$*97,879*	$*77,747*
Denominator			
Weighted average shares, basic	*62,040,704*	*64,905,793*	*68,096,051*
Dilutive effect of stock compensation awards (1)	*602,168*	*476,981*	*1,104,246*
Diluted shares	*62,642,872*	*65,382,774*	*69,200,297*
Net income attributable to common shareholders per share			
Basic	$*2.58*	$*1.51*	$*1.14*
Diluted	$*2.56*	$*1.50*	$*1.12*

(*1*) Excludes approximately *147,400, 15,800* and *161,400* stock options for the years ended *December 31, 2017, 2016* and *2015,* respectively, as the impact of such awards was anti-dilutive. Excludes approximately *1,000* shares of restricted stock for the year ended *December 31, 2015,* as the impact of such awards was anti-dilutive.

13. Income Taxes

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Current:			
Federal	$*15,753*	$*11,717*	$*13,614*
State	*1,775*	*2,047*	*1,966*
Foreign	*4,585*	*4,460*	*3,588*

	22,113	*18,224*	*19,168*
Deferred:			
Federal	*17,737*	*41,264*	*31,869*
State	*4,026*	*3,029*	*1,387*
Foreign	*(2,777*)	*(5,585*)	*(7,326*)
	18,986	*38,708*	*25,930*
Change in valuation allowance	*2,454*	*638*	*138*
Provision for income taxes	$*43,553*	$*57,570*	$*45,236*

The Company files U.S federal, U.S. state and foreign jurisdiction tax returns that are subject to examination up to the expiration of the statute of limitations. We believe the tax positions taken on our returns would be sustained upon an exam, or where a position is uncertain, adequate reserves have been recorded. As of *December 31, 2017* the Company is *no* longer subject to income tax examinations for United States federal income taxes for the tax years prior to 2*014.* Due to the carryforward of net operating losses, and research and development credits, the Company's Wisconsin state income tax returns for tax years *2007* through *2016 remain open.* In addition, the Company is subject to audit by various foreign taxing jurisdictions for the tax years *2012* through *2016.*

The Company is currently under examination in multiple jurisdictions and is working to address all matters. While the Company does *not* believe any material taxes or penalties are due, there is a possibility that the ultimate tax outcome of an examination *may* result in differences from what was recorded. Such differences *may* affect the provision for income taxes in the period in which the determination is made, and could impact the Company’s financial results.

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On *December 22, 2017,* the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code, including, but *not* limited to, reducing the U.S. federal corporate tax rate from *35%* to *21%*, requiring companies to pay a *one*-time transition tax on certain unrepatriated earnings of foreign subsidiaries, eliminating certain deductions, introducing new tax regimes, changing how foreign earnings are subject to U.S. tax, and enhancing and extending through *2026* the option to claim accelerated depreciation deductions on qualified property.

The SEC staff issued 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 the following elements of the Tax Act is incomplete. However, reasonable estimates of certain effects were able to be made and, therefore, provisional adjustments were recorded as follows:

Reduction of US federal corporate tax rate: The Tax Act reduces the federal corporate tax rate to *21%*, effective *January 1, 2018.* For certain of the Company's deferred tax liabilities (DTLs), a provisional decrease of *$28,434 was recorded to reflect our DTLs at thelower corporate tax rate,* with a corresponding net adjustment to deferred income tax benefit of *$28,434* for the year ended *December 31, 2017.* While a reasonable estimate of the impact of the reduction in the corporate tax rate was made, it *may* be affected by other analyses related to the Tax Act, including, but *not* limited to, the calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences.

Deemed Repatriation Transition Tax: The Deemed Repatriation Transition Tax (Transition Tax) is a tax on previously untaxed accumulated and current earnings and profits (E&P) of certain of the Company’s foreign subsidiaries. To determine the amount of the Transition Tax, the amount of post-1986 E&P of relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings must be determined, in addition to other factors. The Company made a reasonable estimate of the Transition Tax and has concluded the amount was not material.

Cost recovery: While the Company has *not* yet completed all of the computations necessary or completed an inventory of our *2017* expenditures that qualify for immediate expensing, a provisional benefit of *$700* was recorded based on our current intent to fully expense all qualifying expenditures. This resulted in a decrease of approximately *$1,750* to current income tax payable and a corresponding increase in DTLs of approximately *$1,050* (after considering the effects of the reduction in income tax rates).

As the Company completes its analysis of the Tax Act; collects and prepares necessary data; and interprets any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies; adjustments to the provisional amounts may be recorded.

Global intangible low taxed income (GILTI): Because of the complexity of the new GILTI tax rules, the Company is continuing to evaluate this provision of the Tax Act and the application of ASC *740.* Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (*1*) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (*2*) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). The selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing the Company's global income to determine whether it is expected to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether the Company expects to have future U.S. inclusions in taxable income related to GILTI depends *not* only on the current structure and estimated future results of global operations but also on the intent and ability to modify the structure and/or the business; the Company is n*ot* yet able to reasonably estimate the effect of this provision of the Tax Act. Therefore, no adjustments related to potential GILTI tax have been made in the financial statements and no policy decision regarding whether to record deferred taxes on GILTI has been made.

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

	December 31,	
	2017	**2016**
Deferred tax assets:		
Accrued expenses	$*15,138*	$*22,758*
Deferred revenue	*8,060*	*10,645*
Inventories	*7,933*	*10,159*
Pension obligations	*3,795*	*7,512*
Stock-based compensation	*5,522*	*7,291*
Operating loss and credit carryforwards	*23,771*	*20,927*
Other	*1,064*	*2,822*
Valuation allowance	*(6,817*)	*(4,362*)
Total deferred tax assets	*58,466*	*77,752*
Deferred tax liabilitites:		
Goodwill and intangible assets	*70,556*	*58,133*
Depreciation	*22,563*	*25,194*
Debt refinancing costs	*5,189*	*7,193*
Prepaid expenses	*709*	*1,173*
Total deferred tax liabilities	*99,017*	*91,693*
Net deferred tax liabilities	$*(40,551*)	$*(13,941*)

As of *December 31, 2017* and *2016,* deferred tax assets of *$3,238* and *$3,337,* and deferred tax liabilities of *$43,789* and *$17,278,* respectively, were reflected on the consolidated balance sheets.

One of the Company's subsidiaries, Generac Brazil, has generated net operating losses for multiple years. The realizability of the deferred tax assets associated with these net operating losses is uncertain, therefore a valuation allowance has been recorded since Generac Brazil's acquisition on *December 8, 2012* and continued through *December 31, 2017.*

In addition, the Company recorded a valuation allowance in the opening balance sheet and as of *December 31, 2017* and *2016* related to the Pramac acquisition. The valuation allowance represents a reserve for deferred tax assets, including loss carryforwards, of certain Pramac subsidiaries, for which utilization is uncertain.

At *December 31, 2017,* the Company had state research and development tax credit carryforwards, and state manufacturing tax credit carryforwards of approximately *$13,089* and *$4,618,* respectively, which expire between *2018* and *2032.* A valuation allowance of *$1,171* has been established against deferred tax assets for these

carryforwards.

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

	December 31,	
	2017	**2016**
Unrecognized tax benefit, beginning of period	$ *7,943*	$ *7,239*
Increase in unrecognized tax benefit for positions taken in current period	*251*	*704*
Statute of limitation expirations	*(1,072*)	-
Unrecognized tax benefit, end of period	$ *7,122*	$ *7,943*

The unrecognized tax benefit as of *December 31, 2017* and *2016,* if recognized, would impact the effective tax rate.

As of *December 31, 2017, 2016* and *2015,* total accrued interest of approximately *$131, $272* and *$174,* respectively, and accrued penalties of approximately *$220, $425* and *$363,* respectively, associated with net unrecognized tax benefits are included in the Company's consolidated balance sheets. Interest and penalties are recorded as a component of income tax expense.

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The Company does *not* expect a significant increase or decrease to the total amounts of unrecognized tax benefits related to continuing operations during the fiscal year ending *December 31, 2018.*

The Tax Act includes a mandatory *one*-time tax on accumulated earnings of foreign subsidiaries, and as a result, all previously unremitted earnings for which *no* U.S. deferred tax liability had been accrued have now been subject to U.S. tax. Notwithstanding the U.S. taxation of these amounts, the Company intends to continue to invest these earnings, as well as the capital in these subsidiaries, indefinitely outside of the U.S. and do *not* expect to incur any significant, additional taxes related to such amounts.

A reconciliation of the statutory tax rates and the effective tax rates for the years ended *December 31, 2017*, *2016* and *2015* are as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
U.S. statutory rate	*35.0* %	*35.0*%	*35.0*%
State taxes	*4.1*	*4.1*	*4.1*
Research and development credits	(*1.4*)	(*1.0*)	(*2.3*)
Share-based compensation (1)	(*1.4*)	-	-
Tax Act impact	(*13.9*)	-	-
Other	(*1.1*)	(*1.3*)	-
Effective tax rate	*21.3* %	*36.8*%	*36.8*%

(*1*) With the adoption of ASU *2016-09* in the *first* quarter of *2017,* excess tax benefits from equity awards are reflected within the provision for income taxes rather than within the consolidated balance sheet. For further information on the Company’s adoption of ASU *2016-09,* refer to Note *2,* “Significant Accounting Policies – New Accounting Pronouncements” to the consolidated financial statements.

14. Benefit Plans

Medical and Dental Plan

The Company maintains medical and dental benefit plans covering its full-time domestic employees and their dependents. Certain plans are partially or fully self-funded under which participant claims are obligations of the plan. These plans are funded through employer and employee contributions at a level sufficient to pay for the benefits provided by the plan. The Company’s contributions to the plans were *$14,992, $15,019,* and *$14,352* for the years

ended *December 31, 2017, 2016,* and *2015,* respectively.

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

Savings Plan

The Company maintains a defined-contribution *401*(k) savings plan for eligible domestic employees. Under the plan, employees *may* defer receipt of a portion of their eligible compensation. The Company amended the *401*(k) savings plans effective *January 1, 2009,* to add Company matching and non-elective contributions. The Company *may* contribute a matching contribution of *50%* of the *first 6%* of eligible compensation of employees. The Company *may* also contribute a non-elective contribution for eligible employees employed on *December 31, 2008.* Both Company matching contributions and non-elective contributions are subject to vesting. Forfeitures *may* be applied against plan expenses and company contributions. The Company recognized *$3,600, $3,400* and *$3,000* of expense related to these plans in *2017, 2016* and *2015,* respectively.

Pension Plans

The Company has frozen noncontributory salaried and hourly pension plans (Pension Plans) covering certain domestic employees. The Pension Plans were frozen effective December 31, 2008. The benefits under the salaried plan are based upon years of service and the participants' defined final average monthly compensation. The benefits under the hourly plan are based on a unit amount at the date of termination multiplied by the participant's years of credited service. The Company's funding policy for the Pension Plans is to contribute amounts at least equal to the minimum annual amount required by applicable regulations.

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

	Year Ended December 31,	
	2017	**2016**
Accumulated benefit obligation at end of period	$*72,631*	$*65,956*
Change in projected benefit obligation		
Projected benefit obligation at beginning of period	$*65,956*	$*63,894*
Interest cost	*2,688*	*2,747*
Net actuarial loss	*6,170*	*1,363*
Benefits paid	*(2,183*)	*(2,048*)
Projected benefit obligation at end of period	$*72,631*	$*65,956*
Change in plan assets		
Fair value of plan assets at beginning of period	$*46,488*	$*43,985*
Actual return on plan assets	*8,382*	*3,820*
Company contributions	*5,327*	*731*
Benefits paid	*(2,183*)	*(2,048*)
Fair value of plan assets at end of period	$*58,014*	$*46,488*
Funded status: accrued pension liability included in other long-term liabilities	$*(14,617*)	$*(19,468*)
Amounts recognized in accumulated other comprehensive loss		
Net actuarial loss, net of tax	$*(10,978*)	$*(11,040*)

The actuarial loss for the Pension Plans that was amortized from AOCL into net periodic (benefit) cost during *2017* is *$883.* The amount in AOCL as of *December 31, 2017* that is expected to be recognized as a component of net periodic pension expense during the next fiscal year is *$802.*

The components of net periodic pension cost are as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
Interest cost	$*2,688*	$*2,747*	$*2,681*
Expected return on plan assets	*(3,011*)	*(2,868*)	*(3,041*)
Amortization of net loss	*883*	*941*	*1,228*
Net periodic pension cost	$*560*	$*820*	$*868*

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

	December 31,	
	2017	**2016**
Discount rate – salaried pension plan	*3.60%*	*4.14%*
Discount rate – hourly pension plan	*3.62%*	*4.16%*
Rate of compensation increase (1)	*n/a*	*n/a*

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

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Discount rate	*4.14%*	*4.39%*	*3.99%*
Expected long-term rate of return on plan assets	*6.58%*	*6.62%*	*6.75%*
Rate of compensation increase (1)	*n/a*	*n/a*	*n/a*

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

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

The Pension Plans' weighted-average asset allocation at *December 31, 2017* and *2016,* by asset category, is as follows:

	Target Allocation		**December 31, 2017**		**December 31, 2016**	
Asset Category	**Minimum**	**Maximum**	**Dollars**	**%**	**Dollars**	**%**
Fixed Income	15.0 %	*25.0* %	$*10,637*	*18* %	$*7,812*	*17* %
Domestic equity	36.5 %	61.5 %	*25,151*	*43* %	*19,615*	*42* %
International equity	17.0 %	25.0 %	*16,093*	*28* %	*13,466*	*29* %
Real estate	7.0 %	*15.0* %	*6,133*	*11* %	*5,595*	*12* %
Total			$*58,014*	*100%*	$*46,488*	*100%*

The fair values of the Pension Plans' assets at *December 31, 2017* are as follows:

Quoted Prices in Active Markets for Identical	Significant Observable Inputs	Significant Unobservable Inputs

	Total	Asset (Level 1)	(Level 2)	(Level 3)
Mutual funds	$*48,314*	$ *48,314*	$ –	$ –
Other investments	*9,700*	–	–	*9,700*
Total	$*58,014*	$ *48,314*	$ –	$ *9,700*

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

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

A reconciliation of beginning and ending balances for Level *3* assets for the years ended *December 31, 2017* and *2016* is as follows:

	Year Ended December 31,	
	2017	2016
Balance at beginning of period	$*8,628*	$*3,675*
Purchases	-	*4,400*
Realized gains	*1,072*	*553*
Balance at end of period	$*9,700*	$*8,628*

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

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

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

At a minimum, the Company expects to make estimated contributions of *$319* to the Pension Plans in *2018.*

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

2018	$*2,445*
2019	*2,502*
2020	*2,622*
2021	*2,760*
2022	*2,932*
2023 – 2027	*16,989*

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

15. **Share Plans**

The Company adopted an equity incentive plan (Plan) on *February 10, 2010* in connection with its initial public offering. The Plan, as amended, allows for granting of up to *9.1* million share-based awards to executives, directors and employees. Awards available for grant under the Plan include stock options, stock appreciation rights, restricted stock, other share-based awards and performance-based compensation awards. Total share-based compensation expense related to the Plan, net of estimated forfeitures, was *$10,205, $9,493* and *$8,241* for the years ended *December 31, 2017, 2016* and *2015,* respectively, which is recorded in operating expenses in the consolidated statements of comprehensive income.

Stock Options - Stock options granted in *2017* have an exercise price between *$40.12* per share and *$48.98* per share; stock options granted in *2016* have an exercise price between *$33.23* per share and *$35.37* per share, and the stock options granted in *2015* have an exercise price between *$28.36* per share and *$49.70* per share. Stock options vest in equal installments over *four* years, subject to the grantee's continued employment or service and expire *ten* years after the date of grant.

Stock option exercises can be net-share settled such that the Company withholds shares with value equivalent to the exercise price of the stock option awards plus the employees' minimum statutory obligation for the applicable income and other employment taxes. Total shares withheld were *9,033, 473,743* and *272,296* in *2017, 2016* and *2015,* respectively, and were based on the value of the stock on the exercise dates. The net-share settlement has the effect of share repurchases by the Company as they reduce the number of shares that would have otherwise been issued.

Employees can also utilize a cashless for cash exercise of stock options, such that all exercised shares will be sold in the market immediately. Cash equivalent to the exercise price of the awards plus the employees' minimum statutory tax obligations is remitted to the Company, with the remaining cash being transferred to the employee. Total proceeds from the cashless for cash exercise of stock options were *$6,951* and *$1,623* in *2017* and *2016,* respectively, and are reflected as a financing activity in the consolidated statement of cash flows.

Total payments made by the Company for the employees' tax obligations to the taxing authorities were *$4,301, $13,056* and *$9,768* in *2017, 2016* and *2015,* respectively, and are reflected as a financing activity within the consolidated statements of cash flows.

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The grant-date fair value of each option grant is estimated using the Black-Scholes-Merton option pricing model. The fair value is then amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on an analysis of historic and implied volatility measures for a set of peer companies. The average expected life is based on the contractual term of the option using the simplified method. The risk-free interest rate is based on U.S. Treasury *zero*-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The compensation expense recognized is net of estimated forfeitures. Forfeitures are estimated based on actual share option forfeiture history. The weighted-average assumptions used in the Black-Scholes-Merton option pricing model for *2017, 2016* and *2015* are as follows:

	2017	**2016**	**2015**
Weighted average grant date fair value	$*16.84*	$*13.77*	$*19.07*
Assumptions:			
Expected stock price volatility	*40* %	*41* %	*41* %
Risk free interest rate	*1.92* %	*1.31* %	*1.72* %
Expected annual dividend per share	$-	$-	$-
Expected life of options (years)	*6.25*	*6.25*	*6.25*

The Company periodically evaluates its forfeiture rates and updates the rates it uses in the determination of its share-based compensation expense. The impact of the change to the forfeiture rates on shares-based compensation expense was not material for the years ended *December 31, 2017, 2016* and *2015.*

A summary of the Company's stock option activity and related information for the years ended *December 31, 2017, 2016* and *2015* is as follows:

	Number of Options	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value ($ in thousands)**
Outstanding as of December 31, 2014	*2,542,139*	$ *9.94*	*8.5*	$ *96,518*
Granted	*287,165*	*45.18*		
Exercised	*(604,088*)	*3.79*		
Expired	*(6,409*)	*50.11*		

Forfeited	*(90,793)*	*37.27*		
Outstanding as of December 31, 2015	*2,128,014*	*15.15*	*7.7*	$ *40,271*
Granted	*398,313*	*33.24*		
Exercised	*(995,469)*	*2.89*		
Forfeited	*(47,894)*	*37.41*		
Outstanding as of December 31, 2016	*1,482,964*	*27.49*	*7.5*	$ *23,840*
Granted	*346,421*	*40.13*		
Exercised	*(287,375)*	*10.58*		
Forfeited	*(69,880)*	*41.12*		
Outstanding as of December 31, 2017	*1,472,130*	*33.11*	*7.3*	$ *25,281*
Exercisable as of December 31, 2017	*720,730*	*26.76*	*6.1*	$ *17,239*

As of *December 31, 2017,* there was *$8,552* of total unrecognized compensation cost, net of expected forfeitures, related to unvested options. The cost is expected to be recognized over the remaining service period, having a weighted-average period of *2.5* years. Total share-based compensation cost related to the stock options for *2017, 2016* and *2015* was *$4,503, $4,366* and *$4,198,* respectively, which is recorded in operating expenses in the consolidated statements of comprehensive income.

Restricted Stock – Restricted stock awards vest in equal installments over *three* years, subject to the grantee’s continued employment or service. Certain restricted stock awards also include performance shares, which were awarded in the years *2014* through *2017.* The number of performance shares that can be earned are contingent upon Company performance measures over a *three*-year period. Performance measures are based on a weighting of revenue growth and EBITDA margin, from which grantees *may* earn from *0%* to *200%* of their target performance share award. The performance period for the *2015* awards covers the years *2015* through *2017,* the performance period for the *2016* awards covers the years *2016* through *2018,* and the performance period for the *2017* awards covers the years *2017* through *2019.* The Company estimates the number of performance shares that will vest based on projected financial performance. The fair market value of the restricted awards at the time of the grant is amortized to expense over the period of vesting. The fair value of restricted awards is determined based on the market value of the Company's shares on the grant date. The compensation expense recognized for restricted share awards is net of estimated forfeitures.

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Restricted stock vesting is net-share settled such that, upon vesting, the Company withholds shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and then pays the cash to the taxing authorities on behalf of the employees. In effect, the Company repurchases these shares and classifies as treasury stock. Total shares withheld were *39,500, 28,593* and *65,763* in *2017, 2016* and *2015,* respectively, and were based on the value of the stock on the vesting dates. Total payments made by the Company for the employees' tax obligations to the taxing authorities were *$1,591, $952* and *$3,233* in *2017, 2016* and *2015,* respectively, and are reflected as a financing activity within the consolidated statements of cash flows.

A summary of the Company's restricted stock activity for the years ended *December 31, 2017, 2016* and *2015* is as follows:

	Shares	**Weighted-Average Grant-Date Fair Value**
Non-vested as of December 31, 2014	*267,284*	$ *38.72*
Granted	*193,117*	*41.31*
Vested	*(183,362)*	*32.56*
Forfeited	*(33,999)*	*47.77*
Non-vested as of December 31, 2015	*243,040*	*44.16*
Granted	*232,295*	*33.56*
Vested	*(95,858)*	*41.93*
Forfeited	*(18,074)*	*38.30*
Non-vested as of December 31, 2016	*361,403*	*38.18*
Granted	*211,769*	*39.91*
Vested	*(133,796)*	*40.60*
Forfeited	*(47,100)*	*42.48*
Non-vested as of December 31, 2017	*392,276*	*37.77*

As of *December 31, 2017,* there was *$7,702* of unrecognized compensation cost, net of expected forfeitures, related to non-vested restricted stock awards. That cost is expected to be recognized over the remaining service period, having a weighted-average period of *1.7* years. Total share-based compensation cost related to the restricted stock for *2017, 2016* and *2015* was *$5,702, $5,127* and *$4,043,* respectively, which is recorded in operating expenses in the consolidated statements of comprehensive income.

During *2017, 2016* and *2015, 34,095, 19,326* and *16,260* shares, respectively, of stock were granted to certain members of the Company's Board of Directors as a component of their compensation for their service on the Board, of which *22,762, 19,326* and *16,260* shares, respectively, were fully vested. Total share-based compensation cost for these share grants in *2017, 2016* and *2015* was *$1,133, $670* and *$615,* respectively, which is recorded in operating expenses in the consolidated statements of comprehensive income.

16. Commitments and Contingencies

The Company leases certain manufacturing and office facilities, machinery and computer equipment, automobiles and warehouse space under operating leases. The approximate aggregate minimum rental commitments at *December 31, 2017,* are as follows:

2018	$*9,497*
2019	*7,786*
2020	*7,496*
2021	*6,647*
2022	*6,633*
After 2022	*5,865*
Total	$*43,924*

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Total rent expense for the years ended *December 31, 2017, 2016* and *2015,* was approximately *$10,845, $9,146,* and *$4,796,* respectively.

The Company has an arrangement with a finance company to provide floor plan financing for certain dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits and has agreed to repurchase products repossessed by the finance company, but does *not* indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at *December 31, 2017* and *2016* was approximately *$36,500* and *$33,900,* respectively.

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

17. Quarterly Financial Information (Unaudited)

	Quarters Ended 2017			
	Q1	**Q2**	**Q3**	**Q4**
Net sales	$*331,814*	$*395,376*	$*457,253*	$*488,002*
Gross profit	*110,486*	*134,460*	*157,469*	*179,702*
Operating income	*31,845*	*52,287*	*72,859*	*94,073*
Net income attributable to Generac Holdings Inc.	*12,842*	*25,660*	*39,709*	*81,175*
Net income attributable to common shareholders per common share - basic:	$*0.22*	$*0.42*	$*0.64*	$*1.31*
Net income attributable to common shareholders per common share - diluted:	$*0.21*	$*0.41*	$*0.64*	$*1.30*

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

18. **Valuation and Qualifying Accounts**

For the years ended *December 31, 2017, 2016* and *2015:*

	Balance at Beginning of Year	**Additions Charged to Earnings**	**Charges to Reserve, Net (1)**	**Reserves Established for Acquisitions**	**Balance at End of Year**
Year ended December 31, 2017					
Allowance for doubtful accounts	$ *5,642*	$ *346*	$ *(1,842*)	$ *659*	$ *4,805*
Reserves for inventory	*13,031*	*6,164*	*(4,036*)	*828*	*15,987*
Valuation of deferred tax assets	*4,362*	*2,455*	-	-	*6,817*
Year ended December 31, 2016					
Allowance for doubtful accounts	$ *2,494*	$ *1,654*	$ *(1,110*)	$ *2,604*	$ *5,642*
Reserves for inventory	*10,582*	*5,359*	*(5,357*)	*2,447*	*13,031*
Valuation of deferred tax assets	*1,523*	*638*	-	*2,201*	*4,362*
Year ended December 31, 2015					
Allowance for doubtful accounts	$ *2,275*	$ *481*	$ *(325*)	$ *63*	$ *2,494*
Reserves for inventory	*9,387*	*3,739*	*(3,158*)	*614*	*10,582*
Valuation of deferred tax assets	*1,385*	*138*	-	-	*1,523*

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

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***19.* Subsequent Events**

On *February 13, 2018,* the Company signed a purchase agreement to acquire Selmec Equipos Industriales, S.A. de C.V. (Selmec), which is headquartered in Mexico City, Mexico. Selmec, which has approximately *300* employees, is a designer and manufacturer of industrial generators ranging from *10* kW to *2,750* kW. Selmec offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services.

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

There were no changes in, or disagreements with, accountants reportable herein.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control Over Financial Reporting

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

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

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

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2017 based on the criteria established in the 2013 *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2017.

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In October 2017 and January 2018, two subsidiaries implemented the Company's global enterprise resource planning (ERP) systems. In connection with those ERP system implementations, we are updating our internal controls over financial reporting for those subsidiaries as necessary, to accommodate modifications to their business processes and accounting procedures. Additional implementations are expected to occur at our remaining locations over a multi-year period.

Deloitte & Touche LLP, the Company’s independent registered public accounting firm, issued an attestation report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017, which is included herein.

Changes in Internal Control Over Financial Reporting

Other than the assessment of controls for the ERP implementation noted above, there have been no changes in our internal control over financial reporting that occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 not already provided herein under “Item 1 – Business – Executive Officers”, will be included in our 2018 Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item will be included in our 2018 Proxy Statement and is incorporated herein by reference.

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

The information required by this item, including under the heading “Securities Authorized for Issuance Under Equity Compensation Plans,” will be included in our 2018 Proxy Statement and is incorporated herein by reference.

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

The information required by this item will be included in our 2018 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be included in our 2018 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Included in Part II of this report:

	Page
Reports of Independent Registered Public Accounting Firms	37
Consolidated balance sheets as of December 31, 2017 and 2016	40
Consolidated statements of comprehensive income for years ended December 31, 2017, 2016 and 2015	41

Consolidated statements of stockholders' equity for years ended December 31, 2017, 2016 and 2015	42
Consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015	43
Notes to consolidated financial statements	44

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(a)(2) Financial Statement Schedules

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

(a)(3) Exhibits

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

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SIGNATURES

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

Generac Holdings Inc.

By: /s/ Aaron Jagdfeld
Aaron Jagdfeld
Chairman, President and Chief Executive Officer

Dated: February 26, 2018

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

Signature	**Title**	**Date**
/s/ Aaron Jagdfeld Aaron Jagdfeld	Chairman, President and Chief Executive Officer	February 26, 2018
/s/ York A. Ragen York A. Ragen	Chief Financial Officer and Chief Accounting Officer	February 26, 2018
/s/ bennett Morgan Bennett Morgan	Lead Director	February 26, 2018
/s/ TODD A. ADAMS Todd A. Adams	Director	February 26, 2018

/s/ JOHN D. BOWLIN John D. Bowlin	Director	February 26, 2018
/s/ Robert D. Dixon Robert D. Dixon	Director	February 26, 2018
/s/ WILLIAM JENKINS William Jenkins	Director	February 26, 2018
/s/ Andrew G. Lampereur Andrew G. Lampereur	Director	February 26, 2018
/s/ David A. Ramon David A. Ramon	Director	February 26, 2018
/s/ KATHRYN ROEDEL Kathryn Roedel	Director	February 26, 2018
/s/ DOMINICK ZARCONE Dominick Zarcone	Director	February 26, 2018

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EXHIBIT INDEX

Exhibits Number	Description
3.1	Third Amended and Restated Certificate of Incorporation of Generac Holdings Inc. (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009).
3.2	Amended and Restated Bylaws of Generac Holdings Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the SEC on February 16, 2016).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.1	Credit Agreement, Dated as of February 9, 2012, As Amended and Restated as of May 30, 2012, As Further Amended and Restated as of May 31, 2013, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Bank of America, N.A. and Goldman Sachs Bank USA, as syndication agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013), as amended by the First Amendment dated as of May 18, 2015.
10.2	Replacement Term Loan Amendment dated as of November 2, 2016, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 3, 2016).
10.3	2017 Replacement Term Loan Amendment dated as of May 11, 2017, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 15, 2017).
10.4	2017-2 Replacement Term Loan Amendment dated as of December 8, 2017, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 11, 2017).
10.5	Restatement Agreement, dated as of May 31, 2013, to that certain Credit Agreement, dated as of February 9, 2012, as amended and restated as of May 30, 2012, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and Bank of America, N.A. and Goldman Sachs Bank USA, as syndication agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013).
10.6	Guarantee and Collateral Agreement, dated as of February 9, 2012, as amended and restated as of May 30, 2012, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent

	(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on May 31, 2012).
10.7	First Amendment to Guarantee and Collateral Agreement dated as of May 31, 2013, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013).
10.8	Credit Agreement, dated as of May 30, 2012, among Generac Power Systems, Inc., its Domestic Subsidiaries listed as Borrowers on the signature pages thereto, Generac Acquisition Corp., the lenders party thereto, Bank of America, N.A. as Administrative Agent, JPMorgan Chase Bank, N.A. and Goldman Sachs Bank USA, as syndication agents, and Wells Fargo Bank, National Association, as Documentation Agent (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on May 31, 2012).

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Exhibits Number	Description
10.9	Amendment No. 1 dated as of May 31, 2013, among Generac Power Systems, Inc., its Domestic Subsidiaries listed as Borrowers on the signature pages thereto, Generac Acquisition Corp., the lenders party thereto, Bank of America, N.A. as Administrative Agent, JPMorgan Chase Bank, N.A. and Goldman Sachs Bank USA, as syndication agents, and Wells Fargo Bank, National Association, as Documentation Agent (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013).
10.10	Amendment No. 2 dated as of May 29, 2015, among Generac Power Systems, Inc., its Domestic Subsidiaries listed as Borrowers on the signature pages thereto, Generac Acquisition Corp., the lenders party thereto, Bank of America, N.A. as Administrative Agent, and the other agents named therein (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on June 1, 2015).
10.11	Guarantee and Collateral Agreement, dated as of May 30, 2012, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on May 31, 2012).
10.12	First Amendment to Guarantee and Collateral Agreement dated as of May 31, 2013, among Generac Holdings Inc., Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on June 4, 2013).
10.13+	2009 Executive Management Incentive Compensation Program (incorporated by reference to Exhibit 10.46 of the Registration Statement on Form S-1 filed with the SEC on December 17, 2009).
10.14+	Generac Holdings Inc. Amended and Restated 2010 Equity Incentive Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A of the Company filed with the SEC on April 27, 2012)
10.15+	Generac Holdings Inc. Annual Performance Bonus Plan (incorporated by reference to Exhibit 10.63 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.16+	Amended and Restated Employment Agreement, dated November 5, 2015, between Generac and Aaron Jagdfeld (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed with the SEC on November 6, 2015).
10.17+	Form of Change in Control Severance Agreement (incorporated by reference to Exhibit 10.64 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.18	Form of Confidentiality, Non-Competition and Intellectual Property Agreement (incorporated by reference to Exhibit 10.40 of the Registration Statement on Form S-1 filed with the SEC on November 24, 2009).
10.19+	

	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.44 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.20+	Form of Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.45 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).

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Exhibits Number	Description
10.21+	Amended Form of Restricted Stock Award Agreement pursuant to the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2012).
10.22+	Amended Form of Nonqualified Stock Option Award Agreement pursuant to the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2012).
10.23+	Amended Form of Restricted Stock Award Agreement with accelerated vesting pursuant to the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2012).
10.24	Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.51 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
10.25	Form of Officer Indemnification Agreement (incorporated by reference to Exhibit 10.52 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
10.26+	Form of Performance Share Award Agreement (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2014).
10.27	Summary of Employment Arrangement with Jeffrey Mueller, President / General Manager – Consumer Power, as set forth in the Offer of Employment Letter dated November 13, 2017.
21.1*	List of Subsidiaries of Generac Holdings Inc.
23.1*	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 26, 2018, formatted in eXtensible Business

Reporting Language (XBRL): (i) Consolidated Balance Sheets at December 31, 2017 and December 31, 2016; (ii) Consolidated Statements of Comprehensive Income for the Fiscal Years Ended December 31, 2017, December 31, 2016 and December 31, 2015; (iii) Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended December 31, 2017, December 31, 2016 and December 31, 2015; (iv) Consolidated Statements of Cash Flows for the Fiscal Years Ended December 31, 2017, December 31, 2016 and December 31, 2015; (v) Notes to Consolidated Financial Statements.

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* Filed herewith.

** Furnished herewith.

\+ Indicates management contract or compensatory plan or arrangement.

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