

GENERAC HOLDINGS INC.

Form 10-Q

November 06, 2015

Table Of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission File Number 001-34627

GENERAC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-5654756

(IRS Employer Identification No.)

S45 W29290 Hwy 59, Waukesha, WI

(Address of principal executive offices)

53189

(Zip Code)

(262) 544-4811

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

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

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

As of November 2, 2015, there were 67,163,204 shares of registrant's common stock outstanding.

Table Of Contents

GENERAC HOLDINGS INC.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u> | |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u> | 1 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u> | 3 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 4 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 13 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 23 |
| Item 4. <u>Controls and Procedures</u> | 23 |
| PART II. OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | 24 |
| Item 1A. <u>Risk Factors</u> | 24 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 24 |
| Item 5. <u>Other Information</u> | 24 |
| Item 6. <u>Exhibits</u> | 24 |
| <u>Signatures</u> | 25 |

Table Of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

| | September 30, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|--|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 46,454 | \$ 189,761 |
| Accounts receivable, less allowance for doubtful accounts | 207,205 | 189,107 |
| Inventories | 362,268 | 319,385 |
| Deferred income taxes | 25,974 | 22,841 |
| Prepaid expenses and other assets | 12,467 | 9,384 |
| Total current assets | 654,368 | 730,478 |
| Property and equipment, net | 178,120 | 168,821 |
| Customer lists, net | 44,256 | 41,002 |
| Patents, net | 55,887 | 56,894 |
| Other intangible assets, net | 2,782 | 4,298 |
| Trade names, net | 208,951 | 182,684 |
| Goodwill | 668,122 | 635,565 |
| Deferred financing costs, net | 13,420 | 16,243 |
| Deferred income taxes | 10,640 | 46,509 |
| Other assets | 1,033 | 48 |
| Total assets | \$ 1,837,579 | \$ 1,882,542 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Short-term borrowings | \$ 4,481 | \$ 5,359 |
| Accounts payable | 123,186 | 132,248 |
| Accrued wages and employee benefits | 17,258 | 17,544 |
| Other accrued liabilities | 79,759 | 84,814 |
| Current portion of long-term borrowings and capital lease obligations | 302 | 557 |
| Total current liabilities | 224,986 | 240,522 |

Edgar Filing: GENERAC HOLDINGS INC. - Form 10-Q

| | | |
|--|--------------|--------------|
| Long-term borrowings and capital lease obligations | 1,050,127 | 1,082,101 |
| Deferred income taxes | 15,014 | 13,449 |
| Other long-term liabilities | 58,180 | 56,671 |
| Total liabilities | 1,348,307 | 1,392,743 |
| Stockholders' equity: | | |
| Common stock, par value \$0.01, 500,000,000 shares authorized, 69,553,549 and 69,122,271 shares issued at September 30, 2015 and December 31, 2014, respectively | 696 | 691 |
| Additional paid-in capital | 442,007 | 434,906 |
| Treasury stock, at cost | (75,913) | (8,341) |
| Excess purchase price over predecessor basis | (202,116) | (202,116) |
| Retained earnings | 348,991 | 280,426 |
| Accumulated other comprehensive loss | (24,393) | (15,767) |
| Total stockholders' equity | 489,272 | 489,799 |
| Total liabilities and stockholders' equity | \$ 1,837,579 | \$ 1,882,542 |

See notes to condensed consolidated financial statements.

Table Of Contents

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$359,291 | \$352,305 | \$959,469 | \$1,056,922 |
| Costs of goods sold | 228,965 | 222,022 | 630,643 | 679,113 |
| Gross profit | 130,326 | 130,283 | 328,826 | 377,809 |
| Operating expenses: | | | | |
| Selling and service | 34,715 | 32,961 | 93,317 | 90,045 |
| Research and development | 8,332 | 7,822 | 24,907 | 23,580 |
| General and administrative | 13,127 | 13,429 | 40,897 | 39,080 |
| Amortization of intangible assets | 6,285 | 5,277 | 17,460 | 15,721 |
| Gain on remeasurement of contingent consideration | - | - | - | (4,877) |
| Total operating expenses | 62,459 | 59,489 | 176,581 | 163,549 |
| Income from operations | 67,867 | 70,794 | 152,245 | 214,260 |
| Other (expense) income: | | | | |
| Interest expense | (10,210) | (12,294) | (32,241) | (35,411) |
| Investment income | 39 | 38 | 111 | 119 |
| Loss on extinguishment of debt | - | (1,836) | (4,795) | (1,836) |
| Gain (loss) on change in contractual interest rate | (2,381) | - | (2,381) | 16,014 |
| Costs related to acquisitions | (153) | (396) | (153) | (396) |
| Other, net | (1,908) | (1,444) | (5,357) | (1,242) |
| Total other expense, net | (14,613) | (15,932) | (44,816) | (22,752) |
| Income before provision for income taxes | 53,254 | 54,862 | 107,429 | 191,508 |
| Provision for income taxes | 19,218 | 18,365 | 38,864 | 66,285 |
| Net income | \$34,036 | \$36,497 | \$68,565 | \$125,223 |
| Net income per common share - basic: | \$0.50 | \$0.53 | \$1.00 | \$1.83 |
| Weighted average common shares outstanding - basic: | 68,175,466 | 68,556,051 | 68,642,479 | 68,511,409 |
| Net income per common share - diluted: | \$0.49 | \$0.52 | \$0.98 | \$1.79 |
| Weighted average common shares outstanding - diluted: | 69,182,465 | 70,033,224 | 69,781,300 | 70,050,953 |
| Comprehensive income | \$31,899 | \$35,472 | \$59,939 | \$122,474 |

See notes to condensed consolidated financial statements.

Table Of Contents

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

| | Nine Months Ended | |
|---|--------------------------|-------------|
| | September 30, | |
| | 2015 | 2014 |
| Operating Activities | | |
| Net income | \$68,565 | \$125,223 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 12,300 | 10,024 |
| Amortization of intangible assets | 17,460 | 15,721 |
| Amortization of original issue discount | 2,494 | 2,573 |
| Amortization of deferred financing costs | 1,874 | 2,272 |
| Loss on extinguishment of debt | 4,795 | 1,836 |
| (Gain) loss on change in contractual interest rate | 2,381 | (16,014) |
| Gain on remeasurement of contingent consideration | - | (4,877) |
| Provision for losses on accounts receivable | 324 | 344 |
| Deferred income taxes | 27,319 | 35,572 |
| Loss on disposal of property and equipment | 53 | 135 |
| Share-based compensation expense | 6,889 | 9,403 |
| Net changes in operating assets and liabilities: | | |
| Accounts receivable | (14,838) | (28,747) |
| Inventories | (28,319) | (9,501) |
| Other assets | 572 | 2,768 |
| Accounts payable | (12,226) | 20,215 |
| Accrued wages and employee benefits | (1,167) | (12,037) |
| Other accrued liabilities | (2,644) | (3,232) |
| Excess tax benefits from equity awards | (8,973) | (9,167) |
| Net cash provided by operating activities | 76,859 | 142,511 |
| Investing Activities | | |
| Proceeds from sale of property and equipment | 105 | 7 |
| Expenditures for property and equipment | (20,108) | (22,722) |
| Acquisition of business | (74,477) | (5,309) |
| Net cash used in investing activities | (94,480) | (28,024) |
| Financing Activities | | |
| Proceeds from short-term borrowings | 14,320 | 4,900 |
| Proceeds from long-term borrowings | 100,000 | - |
| Repayments of short-term borrowings | (15,198) | (24,741) |
| Repayments of long-term borrowings and capital lease obligations | (150,595) | (68,905) |
| Stock repurchases | (64,378) | - |
| Payment of debt issuance costs | (2,067) | (4) |

Edgar Filing: GENERAC HOLDINGS INC. - Form 10-Q

| | | |
|---|-----------|-----------|
| Cash dividends paid | (1,429) | (705) |
| Taxes paid related to the net share settlement of equity awards | (12,387) | (10,255) |
| Excess tax benefits from equity awards | 8,973 | 9,167 |
| Proceeds from exercise of stock options | 7 | 21 |
| Net cash used in financing activities | (122,754) | (90,522) |
| Effect of exchange rate changes on cash and cash equivalents | (2,932) | (950) |
| Net (decrease) increase in cash and cash equivalents | (143,307) | 23,015 |
| Cash and cash equivalents at beginning of period | 189,761 | 150,147 |
| Cash and cash equivalents at end of period | \$46,454 | \$173,162 |

See notes to condensed consolidated financial statements.

Table Of Contents

Generac Holdings Inc.
Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

1. Description of Business and Basis of Presentation

Generac Holdings Inc. (the Company) is a leading designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light-commercial, industrial, oil & gas, and construction 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.

The Company has executed a number of acquisitions that support our strategic plan (as discussed in Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2014). A summary of these acquisitions include the following:

On October 3, 2011, the Company acquired substantially all of the assets of Magnum Products (Magnum), a supplier of generator powered light towers and mobile generators for a variety of industrial applications. The Magnum business is a strategic fit for the Company as it provides diversification through the introduction of new engine powered products, distribution channels and end markets.

On December 8, 2012, the Company acquired the equity of Ottomotores UK and its affiliates (Ottomotores), with operations in Mexico City, Mexico and Curitiba, Brazil. Ottomotores is a leading manufacturer in the Mexican market for industrial diesel gensets and is a market participant throughout all of Latin America.

On August 1, 2013, the Company acquired the equity of Tower Light SRL and its wholly-owned subsidiaries (Tower Light). Headquartered outside Milan, Italy, Tower Light is a leading developer and supplier of mobile light towers throughout Europe, the Middle East and Africa.

On November 1, 2013, the Company purchased the assets of Baldor Electric Company's generator division (Baldor Generators). Baldor Generators offers a complete line of power generation equipment throughout North America with power output up to 2.5MW, which expands the Company's commercial and industrial product lines.

On September 2, 2014, the Company acquired the equity of Pramac America LLC (Powermate), resulting in the ownership of the Powermate trade name and the right to license the DeWalt brand name for certain residential engine powered tools. This acquisition expands Generac's residential product portfolio in the portable generator category.

On October 1, 2014, the Company acquired MAC, Inc. (MAC). MAC is a leading manufacturer of premium-grade commercial and industrial mobile heaters for the United States and Canadian markets. The acquisition expands the Company's portfolio of mobile power products and provides increased access to the oil & gas market.

On August 1, 2015, the Company acquired Country Home Products and its subsidiaries (CHP). CHP is a leading manufacturer of high-quality, innovative, professional-grade engine powered equipment used in a wide variety of property maintenance applications, which are primarily sold in North America under the DR® Power Equipment brand. The acquisition provides an expanded product lineup and additional scale to the Company's residential engine powered products.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany amounts and transactions have been eliminated in consolidation. Certain prior period amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current period's presentation.

The condensed consolidated balance sheet as of September 30, 2015, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2015 and 2014, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for the fair presentation of the financial position, results of operation and cash flows, have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

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

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Table Of Contents

New Accounting Standards

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. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 for an additional year, making the guidance effective for the Company in 2018. The guidance can be applied either on a full retrospective basis or on a retrospective basis in which the cumulative effect of initially applying the standard is recognized at the date of initial application. The Company is currently assessing the impact the adoption of this guidance will have on the Company's results of operations.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. This guidance is a part of the FASB's initiative to reduce complexity in accounting standards, and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The guidance should be applied on a retrospective basis, and is effective for the Company in 2016. The Company expects that this guidance will only affect the classification of debt issuance costs on its balance sheets and will have no impact on its results of operations.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations: Simplifying the Accounting for Measurement Period Adjustments*. This guidance eliminates the requirement for an acquirer to recognize measurement period adjustments retrospectively; rather an acquirer will recognize a measurement period adjustment during the period in which it determines the amount of the adjustment. The guidance should be applied on a prospective basis, and is effective for the Company in 2016, with early adoption permitted. The Company has early adopted this guidance; however, there is no impact on the Company's results of operations for the third quarter of 2015 as there were no material measurement period adjustments.

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 other accounting pronouncements has had or will have a material impact on the Company's consolidated financial statements.

2. Acquisitions

Acquisition of CHP

On August 1, 2015, the Company acquired CHP for a purchase price, net of cash and debt acquired, of \$74,710. 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 was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation during the third quarter of 2015 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately \$81,726 of intangible assets, including approximately \$30,076 of goodwill, as of the acquisition date. The goodwill ascribed to this acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of CHP from August 1, 2015 through September 30, 2015.

Acquisition of MAC

On October 1, 2014, a subsidiary of the Company acquired MAC for a purchase price, net of cash acquired, of \$55,690. Headquartered in Bismarck, North Dakota, MAC is a leading manufacturer of premium-grade commercial and industrial mobile heaters within the United States and Canada. The acquisition was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation during the fourth quarter of 2014 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately \$49,378 of intangible assets, including approximately \$25,898 of goodwill, as of the acquisition date. The purchase price allocation was finalized during the third quarter of 2015, resulting in a \$4,229 decrease to total intangible assets, including an increase of \$2,481 to goodwill. The goodwill ascribed to this acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of MAC for the three and nine month periods ended September 30, 2015.

3. Derivative Instruments and Hedging Activities

The Company records all derivatives in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, which requires all 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.

Table Of Contents

Commodities

The primary objectives of the commodity risk management activities are to understand and mitigate the impact of potential price fluctuations on the Company's financial results and its economic well-being. While the Company's risk management objectives and strategies will be driven from an economic perspective, it attempts, where possible and practical, to ensure that the hedging strategies it engages in can be treated as "hedges" from an accounting perspective or otherwise result in accounting treatment where the earnings effect of the hedging instrument provides substantial offset (in the same period) to the earnings effect of the hedged item. Generally, these risk management transactions will involve the use of commodity derivatives to protect against exposure resulting from significant price fluctuations in raw materials.

The Company primarily utilizes commodity contracts with maturities of less than eighteen months. These are intended to offset the effect of price fluctuations on actual inventory purchases. At September 30, 2015, December 31, 2014 and September 30, 2014, the Company had three, three and two commodity contracts outstanding, respectively, covering the purchases of copper.

Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in cost of goods sold in the Company's condensed consolidated statements of comprehensive income. Net losses recognized for the three and nine months ended September 30, 2015 were \$667 and \$1,708, respectively. Net losses recognized for the three and nine months ended September 30, 2014 were \$106 and \$154, respectively.

Foreign Currencies

The Company is exposed to foreign currency exchange risk as a result of transactions denominated in other currencies. The Company periodically utilizes foreign currency forward purchase and sales contracts to manage the volatility associated with foreign currency purchases in the normal course of business. Contracts typically have maturities of twelve months or less. As of September 30, 2015, December 31, 2014 and September 30, 2014, the Company had three, one and one foreign currency contracts outstanding, respectively.

Because these contracts do not qualify for hedge accounting, gains and losses are recorded in cost of goods sold in the Company's condensed consolidated statements of comprehensive income. Net losses recognized for the three and nine months ended September 30, 2015 were \$107 and \$465, respectively. Net losses recognized for the three and nine months ended September 30, 2014 were \$93 and \$190, respectively.

Interest Rate Swaps

On October 23, 2013, the Company entered into two interest rate swap agreements, and on May 19, 2014, the Company entered into an additional interest rate swap agreement. The Company formally documented all relationships between interest rate hedging instruments and the related hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. These interest rate swap agreements qualify as cash flow hedges, and accordingly, the effective portions of the gains or losses are reported as a component of accumulated other comprehensive loss (AOCL). The cash flows of the swaps are recognized as adjustments to interest expense each period. The ineffective portions of the derivatives' changes in fair value, if any, are immediately recognized in earnings.

Fair Value

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

| | September 30, 2015 | December 31, 2014 |
|----------------------------|-----------------------------------|----------------------------------|
| Commodity contracts | \$ (1,036) | \$ (515) |
| Foreign currency contracts | (107) | (149) |
| Interest rate swaps | (4,415) | (1,045) |

The fair value of the commodity and foreign currency contracts are included in other accrued liabilities, and the fair value of the interest rate swaps are included in other long-term liabilities in the condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014. Excluding the impact of credit risk, the fair value of the derivative contracts as of September 30, 2015 and December 31, 2014 is a liability of \$5,636 and \$1,727, respectively, which represents the amount the Company would need to pay to exit the agreements on those dates.

The amount of losses recognized in AOCL in the condensed consolidated balance sheets on the effective portion of interest rate swaps designated as hedging instruments for the three and nine months ended September 30, 2015 were \$1,065 and \$2,071, respectively. The amount of (gains) losses for the three and nine months ended September 30, 2014 were \$(989) and \$719, respectively.

Table Of Contents

The amount of losses recognized in cost of goods sold in the condensed consolidated statements of comprehensive income for commodity and foreign currency contracts not designated as hedging instruments for the three and nine months ended September 30, 2015 were \$774 and \$2,173, respectively. The amount of losses for the three and nine months ended September 30, 2014 were \$199 and \$344, respectively.

4. Fair Value Measurements

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

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings and ABL facility borrowings), excluding Term Loan long-term borrowings, approximates the fair value of these instruments based upon their short-term nature. The fair value of Term Loan long-term borrowings, including amounts classified as current, which have an aggregate carrying value of \$936,646, was approximately \$928,451 (Level 2) at September 30, 2015, as calculated based on independent valuations whose inputs and significant value drivers are observable.

For the fair value of the assets and liabilities measured on a recurring basis, see the fair value table in Note 3, “Derivative Instruments and Hedging Activities,” to the condensed consolidated financial statements. The fair value of all derivative contracts is classified as Level 2. The valuation techniques used to measure the fair value of derivative contracts, all of which have counterparties with high credit ratings, were based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above considers the Company’s credit risk in accordance with ASC 820-10.

5. Accumulated Other Comprehensive Loss

The following presents a tabular disclosure of changes in AOCL during the three and nine months ended September 30, 2015 and 2014, net of tax:

| | Foreign Currency | Defined Benefit | Unrealized Loss on | Total |
|---|------------------------------------|----------------------------|-------------------------------|---------------------|
| | Translation Adjustments | Pension Plan | Cash Flow Hedges | |
| Beginning Balance – July 1, 2015 | \$ (7,361 |) \$(13,243) | \$ (1,652 |) \$(22,256) |
| Other comprehensive loss before reclassifications | (1,072 |) - | (1,065 |)(1) (2,137) |
| Amounts reclassified from AOCL | - | - | - | - |
| Net current-period other comprehensive loss | (1,072 |) - | (1,065 |) (2,137) |
| Ending Balance – September 30, 2015 | \$ (8,433 |) \$(13,243) | \$ (2,717 |) \$(24,393) |

Table Of Contents

| | Foreign Currency | Defined Benefit | Unrealized Gain (Loss) on | Total |
|--|------------------------------------|----------------------------|--|--------------|
| | Translation Adjustments | Pension Plan | Cash Flow Hedges | |
| Beginning Balance – July 1, 2014 | \$ 1,188 | \$(4,393) | \$ (934) | \$(4,139) |
| Other comprehensive income (loss) before reclassifications | (2,014) | - | 989 | (2) (1,025) |
| Amounts reclassified from AOCL | - | - | - | - |
| Net current-period other comprehensive income (loss) | (2,014) | - | 989 | (1,025) |
| Ending Balance – September 30, 2014 | \$ (826) | \$(4,393) | \$ 55 | \$(5,164) |

| | Foreign Currency | Defined Benefit | Unrealized Loss on | Total |
|---|------------------------------------|----------------------------|-------------------------------|--------------|
| | Translation Adjustments | Pension Plan | Cash Flow Hedges | |
| Beginning Balance – January 1, 2015 | \$ (1,878) | \$(13,243) | \$ (646) | \$(15,767) |
| Other comprehensive loss before reclassifications | (6,555) | - | (2,071) | (3) (8,626) |
| Amounts reclassified from AOCL | - | - | - | - |
| Net current-period other comprehensive loss | (6,555) | - | (2,071) | (8,626) |
| Ending Balance – September 30, 2015 | \$ (8,433) | \$(13,243) | \$ (2,717) | \$(24,393) |

| | Foreign Currency | Defined Benefit | Unrealized Gain (Loss) on | Total |
|---|------------------------------------|----------------------------|--|--------------|
| | Translation Adjustments | Pension Plan | Cash Flow Hedges | |
| Beginning Balance – January 1, 2014 | \$ 1,204 | \$(4,393) | \$ 774 | \$(2,415) |
| Other comprehensive loss before reclassifications | (2,030) | - | (719) | (4) (2,749) |
| Amounts reclassified from AOCL | - | - | - | - |
| Net current-period other comprehensive loss | (2,030) | - | (719) | (2,749) |
| Ending Balance – September 30, 2014 | \$ (826) | \$(4,393) | \$ 55 | \$(5,164) |

(1) Represents unrealized losses of \$(1,727), net of tax benefit of \$662 for the three months ended September 30, 2015.

(2) Represents unrealized gains of \$1,538, net of tax effect of \$(549) for the three months ended September 30, 2014.

(3) Represents unrealized losses of \$(3,370), net of tax benefit of \$1,299 for the nine months ended September 30, 2015.

(4)

Represents unrealized losses of \$(1,132), net of tax benefit of \$413 for the nine months ended September 30, 2014.

6. Segment Reporting

The Company operates in and reports as a single operating segment, which is the design and manufacture of a wide range of engine powered products. Net sales are predominantly generated through the sale of generators and other engine powered products through various distribution channels. The Company manages and evaluates its operations as one segment primarily due to similarities in the nature of the products, production and design processes, and methods of distribution. The Company's sales in the United States represented approximately 88% and 86% of total sales for the three months ended September 30, 2015 and 2014, respectively, and represented 86% and 85% of total sales for the nine months ended September 30, 2015 and 2014, respectively. Approximately 91% and 90% of the Company's identifiable long-lived assets are located in the United States at September 30, 2015 and December 31, 2014, respectively.

Table Of Contents

The Company's product offerings consist primarily of power products with a range of power output 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 usage. The breakout of net sales between residential, commercial & industrial, and other products is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|---|-------------|--|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| Residential products | \$ 184,967 | \$ 183,747 | \$ 475,268 | \$ 527,308 |
| Commercial & industrial products | 148,234 | 146,411 | 416,577 | 467,248 |
| Other | 26,090 | 22,147 | 67,624 | 62,366 |
| Total | \$ 359,291 | \$ 352,305 | \$ 959,469 | \$ 1,056,922 |

7. Balance Sheet Details

Inventories consist of the following:

| | September 30, | December 31, |
|----------------------------------|--------------------------|-------------------------|
| | 2015 | 2014 |
| Raw material | \$ 189,348 | \$ 184,407 |
| Work-in-process | 4,246 | 8,798 |
| Finished goods | 178,408 | 135,567 |
| Reserves for excess and obsolete | (9,734) | (9,387) |
| Total | \$ 362,268 | \$ 319,385 |

Property and equipment consists of the following:

| September 30, | December 31, |
|--------------------------|-------------------------|
| 2015 | 2014 |

Edgar Filing: GENERAC HOLDINGS INC. - Form 10-Q

| | | |
|------------------------------|------------|------------|
| Land and improvements | \$ 8,277 | \$ 7,803 |
| Buildings and improvements | 103,890 | 102,254 |
| Machinery and equipment | 70,225 | 65,240 |
| Dies and tools | 19,707 | 16,897 |
| Vehicles | 1,232 | 1,383 |
| Office equipment and systems | 27,649 | 21,990 |
| Leasehold improvements | 3,020 | 2,535 |
| Construction in progress | 25,650 | 20,120 |
| Gross property and equipment | 259,650 | 238,222 |
| Accumulated depreciation | (81,530) | (69,401) |
| Total | \$ 178,120 | \$ 168,821 |

Table Of Contents**8. 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.

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

| | Three Months Ended | | Nine Months Ended | |
|--|-------------------------------|-------------|-------------------------------|-------------|
| | September 30, 2015 | 2014 | September 30, 2015 | 2014 |
| Balance at beginning of period | \$28,185 | \$32,171 | \$30,909 | \$33,734 |
| Product warranty reserve assumed in acquisition | 351 | 193 | 351 | 193 |
| Payments | (5,812) | (5,672) | (16,345) | (16,696) |
| Provision for warranties issued | 6,033 | 5,595 | 15,062 | 17,623 |
| Changes in estimates for pre-existing warranties | 105 | 182 | (1,115) | (2,385) |
| Balance at end of period | \$28,862 | \$32,469 | \$28,862 | \$32,469 |

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

| | Three Months Ended | | Nine Months Ended | |
|--|-------------------------------|-------------|-------------------------------|-------------|
| | September 30, 2015 | 2014 | September 30, 2015 | 2014 |
| Balance at beginning of period | \$27,241 | \$25,679 | \$27,193 | \$23,092 |
| Deferred revenue on extended warranty contracts assumed in acquisition | 291 | - | 291 | - |
| Deferred revenue on extended warranty contracts sold | 1,694 | 1,315 | 3,884 | 5,329 |
| Amortization of deferred revenue on extended warranty contracts | (1,138) | (850) | (3,280) | (2,277) |

| | | | | |
|--------------------------|----------|----------|----------|----------|
| Balance at end of period | \$28,088 | \$26,144 | \$28,088 | \$26,144 |
|--------------------------|----------|----------|----------|----------|

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

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------------------|----------------------------------|
| Product warranty liability | | |
| Current portion - other accrued liabilities | \$ 21,577 | \$ 24,143 |
| Long-term portion - other long-term liabilities | 7,285 | 6,766 |
| Total | \$ 28,862 | \$ 30,909 |
| Deferred revenue related to extended warranty | | |
| Current portion - other accrued liabilities | \$ 5,178 | \$ 4,519 |
| Long-term portion - other long-term liabilities | 22,910 | 22,674 |
| Total | \$ 28,088 | \$ 27,193 |

Table Of Contents**9. Credit Agreements**

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

| | September 30, 2015 | December 31, 2014 |
|-----------------------|-----------------------------------|----------------------------------|
| ABL facility | \$ - | \$ - |
| Other lines of credit | 4,481 | 5,359 |
| Total | \$ 4,481 | \$ 5,359 |

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

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------------------|----------------------------------|
| Term loan | \$954,000 | \$1,104,000 |
| Original issue discount | (17,496) | (23,861) |
| ABL facility | 100,000 | - |
| Capital lease obligation | 1,783 | 2,059 |
| Other | 12,142 | 460 |
| Total | 1,050,429 | 1,082,658 |
| Less: current portion of debt | 142 | 389 |
| Less: current portion of capital lease obligation | 160 | 168 |
| Total | \$1,050,127 | \$1,082,101 |

The Company's credit agreements provide for a \$1,200,000 term loan B credit facility (Term Loan) and include a \$300,000 uncommitted incremental term loan facility. The Term Loan matures on May 31, 2020. 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 is reduced to 1.50% and the applicable margin related to LIBOR rate loans is reduced to 2.50%, in each case, if the Borrower's net debt leverage ratio, as defined in the Term Loan, falls below 3.00 to 1.00 for that measurement period.

Because the Company's net debt leverage ratio was below 3.00 to 1.00 on April 1, 2014, it realized a 25 basis point reduction in borrowing costs in the second quarter of 2014. As a result, the Company recorded a cumulative catch-up gain of \$16,014 in the second quarter of 2014 which represents the total cash interest savings over the remaining term of the loan, as the Company expected the net debt leverage ratio to remain below 3.00 to 1.00.

Because the Company's net debt leverage ratio was above 3.00 to 1.00 on July 1, 2015, it realized a 25 basis point increase in borrowing costs in the third quarter of 2015. As a result, the Company recorded a cumulative catch-up loss of \$2,381 in the third quarter of 2015, which represents the additional cash interest expected to be paid while the net debt leverage ratio is forecasted to be above 3.00 to 1.00.

On May 18, 2015, the Company amended certain provisions and covenants of the Term Loan. In connection with this amendment and in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, the Company capitalized \$1,528 of fees paid to creditors as original issue discount on long-term borrowings and expensed \$49 of transaction fees in the second quarter of 2015. As of September 30, 2015, the Company is in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

The Company's credit agreements also provided for a \$150,000 senior secured ABL revolving credit facility (ABL Facility). The maturity date of the ABL Facility 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.

On May 29, 2015, the Company amended its ABL Facility. The amendment (i) increases the ABL Facility from \$150,000 to \$250,000 (Amended ABL Facility), (ii) extends the maturity date from May 31, 2018 to May 29, 2020, (iii) increases the uncommitted incremental facility from \$50,000 to \$100,000, (iv) reduces the interest rate spread by 50 basis points and (v) reduces 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 \$490 of new debt issuance costs in 2015.

Table Of Contents

On May 29, 2015, the Company borrowed \$100,000 under the Amended ABL Facility, the proceeds of which were used as a voluntary prepayment towards the Term Loan. As of September 30, 2015, there was \$100,000 outstanding under the Amended ABL Facility, leaving \$148,500 of availability, net of outstanding letters of credit.

On April 30, September 30 and December 31, 2014, the Company made voluntary prepayments of the Term Loan of \$12,000, \$50,000 and \$25,000, respectively, which were applied to future principal amortizations and the Excess Cash Flow payment requirement in the Term Loan. As a result of the prepayments, the Company wrote off \$2,084 of original issue discount and capitalized debt issuance costs in 2014 as a loss on extinguishment of debt in the condensed consolidated statement of comprehensive income.

On March 30 and May 29, 2015, the Company made voluntary prepayments of the Term Loan of \$50,000 and \$100,000, respectively, which will be 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 in the first half of 2015 as a loss on extinguishment of debt in the condensed consolidated statement of comprehensive income.

As of September 30, 2015 and December 31, 2014, short-term borrowings consisted of borrowings by our foreign subsidiaries on local lines of credit, which totaled \$4,481 and \$5,359, respectively.

10. Stock Repurchase Program

On August 5, 2015, the Company's Board of Directors approved a \$200,000 stock repurchase program. Under the program, the Company may repurchase up to \$200,000 of its common stock over 24 months from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The repurchase may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's shares of common stock and general market and economic conditions, applicable legal requirements, and compliance with the terms of the Company's outstanding indebtedness. The stock repurchase program may be suspended or discontinued at any time without prior notice.

For the three months ended September 30, 2015, the Company repurchased 2,150,000 shares of its common stock for \$64,378, funded with cash on hand.

11. Earnings Per Share

Basic earnings per share is calculated by dividing net income 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, as well as their related income tax benefits. The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income (numerator) | \$34,036 | \$36,497 | \$68,565 | \$125,223 |
| Weighted average shares (denominator) | | | | |
| Basic | 68,175,466 | 68,556,051 | 68,642,479 | 68,511,409 |
| Dilutive effect of stock compensation awards (1) | 1,006,999 | 1,477,173 | 1,138,821 | 1,539,544 |
| Diluted | 69,182,465 | 70,033,224 | 69,781,300 | 70,050,953 |
| Net income per share | | | | |
| Basic | \$0.50 | \$0.53 | \$1.00 | \$1.83 |
| Diluted | \$0.49 | \$0.52 | \$0.98 | \$1.79 |

(1) Excludes approximately 250,900 stock options and 11,000 shares of restricted stock for the three month period ended September 30, 2015, and 138,900 stock options and 800 shares of restricted stock for the nine month period ended September 30, 2015, as the impact of such awards was anti-dilutive. Excludes approximately 91,300 and 75,400 stock options for the three and nine month periods ended September 30, 2014, respectively, as the impact of such awards was anti-dilutive.

Table Of Contents

12. Income Taxes

The effective income tax rates for the nine months ended September 30, 2015 and 2014 were 36.2% and 34.6%, respectively. The increase in the effective income tax rate is primarily attributable to a decrease in the Company's federal domestic production activity deduction due to lower pre-tax income during the first nine months of 2015 compared to the first nine months of 2014. In addition, during the second quarter of 2014, the Company recognized a gain related to certain earn-out obligation adjustments in connection with acquisitions. This gain was not taxable and decreased the effective tax rate during that period.

13. Commitments and Contingencies

The Company has an arrangement with a finance company to provide floor plan financing for selected dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits and has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at September 30, 2015 and December 31, 2014 was approximately \$35,700 and \$26,100, respectively.

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

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

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

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

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

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

frequency and duration of power outages impacting demand for our products;
availability, cost and quality of raw materials and key components used in producing our products;
the impact on our results of possible fluctuations in interest rates and foreign currency exchange rates;
the possibility that the expected synergies, efficiencies and cost savings of our acquisitions will not be realized, or will not be realized within the expected time period;
the risk that our acquisitions will not be integrated successfully;
difficulties we may encounter as our business expands globally;
competitive factors in the industry in which we operate;
our dependence on our distribution network;
our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;
loss of our key management and employees;
increase in product and other liability claims or recalls; and
changes in environmental, health and safety laws and regulations.

Table Of Contents

Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, our actual results may vary in material respects from those projected in any forward-looking statements. A detailed discussion of these and other factors that may affect future results is contained in our filings with the Securities and Exchange Commission, including in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. Stockholders, potential investors and other readers should consider these factors carefully in evaluating the forward-looking statements.

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

Overview

We are a leading designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light commercial, industrial, oil & gas, and construction markets. Power generation is our primary focus, which differentiates us from our primary competitors that also have broad operations outside 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 range of products in the marketplace, including residential, commercial and industrial standby generators, as well as portable and mobile generators used in a variety of applications. Other engine powered products that we design and manufacture include light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters used in the oil & gas, construction and other industrial markets; and a broad product line of chore products for residential and commercial use.

The Company has executed a number of acquisitions that support our strategic plan. A summary of these acquisitions can be found in Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements in Item 1 of this quarterly report on Form 10-Q.

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

A significant portion of our performance is affected by the demand for reliable back-up power solutions by our customer base. This demand is influenced by several important drivers and trends affecting our industry, including the following:

Increasing penetration opportunity. Many potential customers are not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 3.5% of U.S. single-family detached, owner-occupied households with a home value of over \$100,000, as defined by the U.S. Census Bureau's 2013 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 (ROI) 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 accelerate the penetration of standby generators in the light-commercial market. Also, the importance of backup power for telecommunications infrastructure is increasing due to the growing demand for uninterrupted voice and data services. Also, in recent years, a more stringent regulatory environment around the flaring of natural gas at oil & gas drilling and production sites has been a catalyst for increased demand for natural gas fueled generators, including mobile solutions. 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. 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 for standby generators. For example, the multiple major outage events that occurred during the second half of both 2011 and 2012 drove strong demand for portable and home standby generators, and the increased awareness of these products contributed to substantial organic revenue growth in 2012 with strong growth continuing during 2013. 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 U.S. that drive the baseline level of demand for back-up power solutions. The level of baseline power outage activity occurring across the U.S. can also fluctuate, and may cause our financial results to fluctuate from year to year.

Table Of Contents

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 products.

Impact of business capital investment cycle. The market for our commercial and industrial products is affected by the overall capital investment cycle, including 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 our 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 conditions and credit availability in the geographic regions that we serve. In addition, we believe demand for our mobile power products will continue to benefit from a secular shift towards renting versus buying this type of equipment.

Factors Affecting Results of Operations

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

Effect of commodity, currency and component price fluctuations. Industry-wide price fluctuations of key commodities, such as steel, copper, aluminum and other components we use in our products, together with foreign currency fluctuations, 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 borne 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 three years approximately 23% to 27% of our net sales occurred in the first quarter, 20% to 25% in the second quarter, 24% to 26% in the third quarter and 25% to 29% in the fourth quarter, with different seasonality depending on the presence, 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. For example, there were multiple major power outage events that occurred during the second half of both 2011 and 2012, which were significant in

terms of severity. As a result, the seasonality experienced during this time period, and for the subsequent quarters following the time period, varied relative to other periods where no major outage events occurred. We maintain a flexible production and supply chain infrastructure in order to respond to outage-driven peak demand.

Factors influencing interest expense and cash interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in LIBOR, interest rate election periods, interest rate swap agreements, credit facility pricing grids, and repayments or borrowings of indebtedness. Cash interest expense decreased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to voluntary prepayments of Term Loan principal and the lower interest rate on our ABL Facility borrowings.

Factors influencing provision for income taxes and cash income taxes paid. We had approximately \$837 million of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2014 related to our acquisition by CCMP in 2006 that we expect to generate cash tax savings of approximately \$326 million through 2021, assuming continued profitability and a 39% tax rate. The recognition of the tax benefit associated with these assets for tax purposes is expected to be \$122 million annually through 2020 and \$102 million in 2021, which generates annual cash tax savings of \$48 million through 2020 and \$40 million in 2021, assuming profitability and a 39% tax rate. As a result of the asset acquisition of the Magnum business in the fourth quarter of 2011, we had approximately \$45.5 million of incremental tax deductible goodwill and intangible assets remaining as of December 31, 2014. We expect these assets to generate cash tax savings of \$17.8 million through 2026 assuming continued profitability and a 39% tax rate. The amortization of these assets for tax purposes is expected to be \$3.8 million annually through 2025 and \$2.8 million in 2026, which generates an additional annual cash tax savings of \$1.5 million through 2025 and \$1.1 million in 2026, assuming profitability and a 39% tax rate. Based on current business plans, we believe that our cash tax obligations through 2026 will be significantly reduced by these tax attributes. Other domestic acquisitions have resulted in additional tax deductible goodwill and intangible assets that will generate tax savings, but are not material to the Company's consolidated financial statements.

Table Of Contents**Results of Operations*****Three and nine months ended September 30, 2015 compared to three and nine months ended September 30, 2014***

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

| (U.S. Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$359,291 | \$352,305 | \$959,469 | \$1,056,922 |
| Cost of goods sold | 228,965 | 222,022 | 630,643 | 679,113 |
| Gross profit | 130,326 | 130,283 | 328,826 | 377,809 |
| Operating expenses: | | | | |
| Selling and service | 34,715 | 32,961 | 93,317 | 90,045 |
| Research and development | 8,332 | 7,822 | 24,907 | 23,580 |
| General and administrative | 13,127 | 13,429 | 40,897 | 39,080 |
| Amortization of intangible assets | 6,285 | 5,277 | 17,460 | 15,721 |
| Gain on remeasurement of contingent consideration | - | - | - | (4,877) |
| Total operating expenses | 62,459 | 59,489 | 176,581 | 163,549 |
| Income from operations | 67,867 | 70,794 | 152,245 | 214,260 |
| Total other income (expense), net | (14,613) | (15,932) | (44,816) | (22,752) |
| Income before provision for income taxes | 53,254 | 54,862 | 107,429 | 191,508 |
| Provision for income taxes | 19,218 | 18,365 | 38,864 | 66,285 |
| Net income | \$34,036 | \$36,497 | \$68,565 | \$125,223 |
| Residential power products | \$184,967 | \$183,747 | \$475,268 | \$527,308 |
| Commercial & industrial power products | 148,234 | 146,411 | 416,577 | 467,248 |
| Other | 26,090 | 22,147 | 67,624 | 62,366 |
| Net sales | \$359,291 | \$352,305 | \$959,469 | \$1,056,922 |

Net sales. Net sales increased \$7.0 million, or 2.0%, to \$359.3 million for the three months ended September 30, 2015 from \$352.3 million for the three months ended September 30, 2014. Acquisitions completed in the last twelve months accounted for \$33.9 million of our sales in the three months ended September 30, 2015. Residential product sales for the third quarter increased to \$185.0 million as compared to \$183.7 million for the third quarter of 2014. The increase was due to a combination of contributions from recent acquisitions being mostly offset by a decline in shipments of home standby generators. The softness in home standby shipments was primarily driven by the continuation of low power outage severity that was significantly below the prior year and, to a lesser extent, by a

modest level of inventory destocking in certain channels. Commercial and industrial (C&I) product sales for the third quarter of 2015 were \$148.2 million as compared to \$146.4 million for the comparable period in 2014. The increase was primarily due to contributions from a recent acquisition and higher shipments of stationary equipment to industrial distributors, mostly offset by a significant decline in shipments of mobile products into oil & gas markets as a result of lower capital spending caused by the substantial decline in energy prices.

Net sales decreased \$97.4 million, or 9.2%, to \$959.5 million for the nine months ended September 30, 2015 from \$1,056.9 million for the nine months ended September 30, 2014. Acquisitions completed in the last twelve months accounted for \$47.9 million of our sales in the nine months ended September 30, 2015. Residential product sales were \$475.3 million for the nine months ended September 30, 2015 as compared to \$527.3 million for the nine months ended September 30, 2014. The decline was primarily driven by a power outage severity environment that is well below normalized levels year-to-date and significantly below the prior year. The low power outage environment resulted in a large decline in shipments of home standby generators and, to a lesser extent, portable generators, partially offset by contributions from recent acquisitions. C&I product sales were \$416.6 million for the nine months ended September 30, 2015 as compared to \$467.2 million for the comparable period in 2014. The decrease was primarily due to a significant decline in shipments of mobile products into oil & gas markets and lower shipments to telecom national account customers as a result of a reduction in capital spending by certain of these customers. Partially offsetting these declines were higher shipments of stationary equipment to industrial distributors and contributions from a recent acquisition.

Table Of Contents

Gross profit. Gross profit margin for the third quarter of 2015 was 36.3% compared to 37.0% in the prior-year third quarter. The decline was primarily driven by unfavorable product mix and, to a lesser extent, the impact from recent acquisitions, partially offset by the favorable impact from improved pricing along with lower commodity costs and benefits from overseas components sourcing due to a stronger U.S. dollar.

Gross profit margin for the nine months ended September 30, 2015 was 34.3% compared to 35.7% for the nine months ended September 30, 2014. The decline was driven by a number of factors including a temporary increase in certain costs associated with the slowdown of activity in west coast ports, unfavorable absorption of manufacturing overhead-related costs, mark-to-market adjustments on commodity forward contracts and the impact from recent acquisitions, partially offset by the favorable impact from improved pricing along with lower commodity costs and benefits from overseas components sourcing due to a stronger U.S. dollar.

Operating expenses. Operating expenses increased \$3.0 million, or 5.0%, to \$62.5 million for the three months ended September 30, 2015 from \$59.5 million for the three months ended September 30, 2014. The increase was primarily due to the addition of recurring operating expenses associated with recent acquisitions, partially offset by reductions in certain other organic selling, general and administrative expenses.

Operating expenses increased \$13.1 million, or 8.0%, to \$176.6 million for the nine months ended September 30, 2015 from \$163.5 million for the nine months ended September 30, 2014. The increase was partially driven by a prior year \$4.9 million gain relating to a remeasurement of a contingent earn-out obligation from a previous acquisition. Excluding this gain, operating expenses increased \$8.2 million, or 4.8%, as compared to the nine months ended September 30, 2014, which was primarily driven by the addition of recurring operating expenses associated with recent acquisitions, and increased marketing and advertising expenses. These increases were partially offset by reductions in variable operating expenses on lower sales volumes.

Other expense. Other expense decreased \$1.3 million to \$14.6 million for the three months ended September 30, 2015 from \$15.9 million for the three months ended September 30, 2014. The decrease was primarily due to a \$2.1 million decrease in interest expense and a prior year voluntary \$50 million prepayment of Term Loan debt, which resulted in a non-cash \$1.8 million loss on extinguishment of debt in the third quarter of 2014. These decreases were partially offset by a current year \$2.4 million non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the net debt leverage ratio going above 3.0 times at June 30, 2015.

Other expense increased \$22.0 million, or 97.0%, to \$44.8 million for the nine months ended September 30, 2015 from \$22.8 million for the nine months ended September 30, 2014. The increase was primarily due to a prior year \$16.0 million non-cash gain relating to a 25 basis point reduction in borrowing costs as a result of the net debt leverage ratio falling below 3.0 times at March 31, 2014, and a current year \$2.4 million non-cash loss relating to a 25 basis point increase in borrowing costs as a result of the net debt leverage ratio going back above 3.0 times at June 30,

2015. Additionally, during the first nine months of 2015, \$150 million of voluntary prepayments of Term Loan debt were made, resulting in a non-cash \$4.8 million loss on extinguishment of debt, compared to a prior year voluntary \$50 million prepayment of Term Loan debt, which resulted in a non-cash \$1.8 million loss on extinguishment of debt in 2014. These debt repayments resulted in a \$3.2 million decrease in interest expense.

Provision for income taxes. Income tax expense was \$19.2 million for the three months ended September 30, 2015 compared to \$18.4 million for the three months ended September 30, 2014. Income tax expense was \$38.9 million for the nine months ended September 30, 2015 compared to \$66.3 million for the nine months ended September 30, 2014. The decrease was primarily driven by lower pre-tax income during the first nine months of 2015 compared to the first nine months of 2014. The effective income tax rates for the nine months ended September 30, 2015 and 2014 were 36.2% and 34.6%, respectively. The increase is attributable to a decrease in our federal domestic production activity deduction due to lower pre-tax income during the first nine months of 2015 compared to the first nine months of 2014. In addition, during the second quarter of 2014, the company recognized a gain related to certain earn-out obligation adjustments in connection with acquisitions. This gain was not taxable, and therefore, decreased the effective tax rate during that period.

Net income. Due to the factors outlined above, we generated net income of \$34.0 million for the three months ended September 30, 2015 compared to \$36.5 million for the three months ended September 30, 2014, and generated net income of \$68.6 million for the nine months ended September 30, 2015 compared to the \$125.2 million for the nine months ended September 30, 2014.

Adjusted EBITDA. Adjusted EBITDA decreased \$1.9 million or 2.3%, to \$81.2 million for the three months ended September 30, 2015 from \$83.1 million for the three months ended September 30, 2014, due to the factors outlined above. Adjusted EBITDA decreased \$54.4 million or 22.2%, to \$190.7 million for the nine months ended September 30, 2015 from \$245.1 million for the nine months ended September 30, 2014, due to the factors outlined above.

Table Of Contents

Adjusted Net Income. Adjusted Net Income of \$63.4 million for the three months ended September 30, 2015 increased 9.6% from \$57.9 million for the three months ended September 30, 2014, primarily due to a decrease in cash income tax expense. Adjusted Net Income of \$133.1 million for the nine months ended September 30, 2015 decreased 19.7% from \$165.7 million for the nine months ended September 30, 2014, due to the factors outlined above partially offset by a decrease in cash income tax expense.

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

Liquidity and Financial Condition

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

The Company’s credit agreements provide for a \$1.2 billion Term Loan and include a \$300.0 million uncommitted incremental term loan facility. The Term Loan matures on May 31, 2020. The Term Loan initially bore interest at rates based upon either a base rate plus an applicable margin of 1.75% or adjusted LIBOR rate plus an applicable margin of 2.75%, subject to a LIBOR floor of 0.75%. Beginning in the second quarter of 2014, and measured each subsequent quarter thereafter, the applicable margin related to base rate loans is reduced to 1.50% and the applicable margin related to LIBOR rate loans is reduced to 2.50%, to the extent that the Company’s net debt leverage ratio, as defined in the Term Loan, is below 3.00 to 1.00 for that measurement period. The Company’s net debt leverage ratio as of September 30, 2015 was above 3.00 to 1.00. As of September 30, 2015, the Company is in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

The Company’s credit agreements also provide for the \$250.0 million Amended ABL Facility. The maturity date of the Amended ABL Facility is May 29, 2020. In May 2015, the Company borrowed \$100.0 million under the Amended ABL Facility, which was used as a voluntary prepayment towards the Term Loan. As of September 30, 2015, there was \$100.0 million outstanding under the Amended ABL Facility, and the Company is in compliance with all covenants of the Amended ABL Facility.

For additional information regarding our credit agreements and their potential impact, see Note 9, “Credit Agreements” of our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

At September 30, 2015, we had cash and cash equivalents on hand of \$46.5 million and \$148.5 million of availability under our revolving ABL credit facility, net of outstanding letters of credit.

On August 5, 2015, the Company's Board of Directors approved a \$200.0 million stock repurchase program. Under the program, the Company may repurchase up to \$200.0 million of its common stock over 24 months from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The repurchase may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's shares of common stock and general market and economic conditions, applicable legal requirements, and compliance with the terms of the Company's outstanding indebtedness. The repurchases will be funded from cash on hand or available borrowings. The stock repurchase program may be suspended or discontinued at any time without prior notice.

For the three months ended September 30, 2015, the Company repurchased 2,150,000 shares of its common stock for \$64.4 million, funded with cash on hand.

Long-term Liquidity

We believe that our cash flow from operations and availability under the 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.

Table Of Contents**Cash Flow*****Nine months ended September 30, 2015 compared to nine months ended September 30, 2014***

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

| (U.S. Dollars in thousands) | Nine Months Ended September 30, | | \$ Change | % Change | |
|---|--|-------------|----------------------|---------------------|---|
| | 2015 | 2014 | | | |
| Net cash provided by operating activities | \$76,859 | \$142,511 | \$(65,652) | -46.1 | % |
| Net cash used in investing activities | (94,480) | (28,024) | (66,456) | 237.1 | % |
| Net cash used in financing activities | (122,754) | (90,522) | (32,232) | 35.6 | % |

Net cash provided by operating activities was \$76.9 million for the nine months ended September 30, 2015 compared to \$142.5 million for the nine months ended September 30, 2014. This 46.1% decrease was primarily the result of lower operating earnings during the current year along with higher working capital investment as finished goods inventory levels increased due to lower-than-expected demand in certain of our end markets. This decline was partially offset by lower taxes paid compared to the prior year.

Net cash used in investing activities was \$94.5 million for the nine months ended September 30, 2015, which was primarily due to cash payments of \$74.5 million related to the acquisition of businesses and \$20.1 million for the purchase of property and equipment. Net cash used in investing activities was \$28.0 million for the nine months ended September 30, 2014, which was primarily due to cash payments of \$22.7 million for the purchase of property and equipment and \$5.3 million related to the acquisition of businesses.

Net cash used in financing activities was \$122.8 million for the nine months ended September 30, 2015, primarily representing \$165.8 million of debt repayments (\$150.6 million of long-term borrowings and \$15.2 million of short-term borrowings) partially offset by \$114.3 million cash proceeds from borrowings (\$100.0 million from long-term borrowings under the ABL facility and \$14.3 million from short-term borrowings). In addition, the Company paid \$64.4 million for the repurchase of its common stock and \$12.4 million related to the net share settlement of equity awards, which was partially offset by \$8.9 million of cash inflow related to excess tax benefits of equity awards.

Net cash used in financing activities was \$90.5 million for the nine months ended September 30, 2014, primarily representing \$93.6 million of debt repayments (\$68.9 million of long-term borrowings and \$24.7 million of short-term borrowings) partially offset by \$4.9 million cash proceeds from short-term borrowings. In addition, the Company paid \$10.3 million related to the net share settlement of equity awards, which was partially offset by \$9.2 million of cash inflow related to the excess tax benefits of equity awards.

Contractual Obligations

During March 2015, the Company made a \$50.0 million voluntary prepayment of its Term Loan. During May 2015, the Company amended its Term Loan and ABL Facility, and borrowed \$100.0 million under the Amended ABL Facility, which was used as a voluntary prepayment towards the Term Loan. Refer to Note 9, "Credit Agreements," to the condensed consolidated financial statements for further information. Other than these items, there have been no material changes to our contractual obligations since the February 27, 2015 filing of our Annual Report on Form 10-K for the year ended December 31, 2014.

Off-Balance Sheet Arrangements

There have been no material changes to off-balance sheet arrangements since the February 27, 2015 filing of our Annual Report on Form 10-K for the year ended December 31, 2014.

Critical Accounting Policies

There have been no material changes in our critical accounting policies since the February 27, 2015 filing of our Annual Report on Form 10-K for the year ended December 31, 2014.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2014, in preparing the financial statements in accordance with U.S. GAAP, we are required to make estimates and assumptions that have an impact on the asset, liability, revenue and expense amounts reported. These estimates can also affect our supplemental information disclosures, including information about contingencies, risk and financial condition. We believe, given current facts and circumstances, that our estimates and assumptions are reasonable, adhere to U.S. GAAP and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates and estimates may vary as new facts and circumstances arise. We make routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property and equipment, and prepaid expenses. We believe that our most critical accounting estimates and assumptions are in the following areas: goodwill and other intangible asset impairment assessment; business combinations and purchase accounting; defined benefit pension obligations; estimates of allowance for doubtful accounts, excess and obsolete inventory reserves, product warranty and other contingencies; derivative accounting; income taxes and share based compensation.

Table Of Contents

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA represents net income before 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 both the Term Loan and Amended ABL Facility, which is substantially the same definition that was contained in the Company's previous credit agreements.

We view Adjusted EBITDA as a key measure of our performance. We present Adjusted EBITDA not only due to its importance for purposes of our credit agreements but also because it assists us in comparing our performance across reporting periods on a consistent basis 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 2015 proxy statement;
- to evaluate the effectiveness of our business strategies and as a supplemental tool in evaluating our performance against our budget for each period; and
- in communications with our Board of Directors and investors concerning our financial performance.

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

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

by comparing our Adjusted EBITDA in different historical periods, our investors can evaluate our operating performance excluding the impact of items described below.

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

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

Table Of Contents

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

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

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

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

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

The following table presents a reconciliation of net income to Adjusted EBITDA:

| (U.S. Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$34,036 | \$36,497 | \$68,565 | \$125,223 |
| Interest expense | 10,210 | 12,294 | 32,241 | 35,411 |
| Depreciation and amortization | 10,597 | 8,789 | 29,760 | 25,745 |
| Provision for income taxes | 19,218 | 18,365 | 38,864 | 66,285 |
| Non-cash write-down and other adjustments (a) | 2,115 | 1,099 | 4,091 | (4,653) |
| Non-cash share-based compensation expense (b) | 1,799 | 3,200 | 6,889 | 9,403 |
| Loss on extinguishment of debt (c) | - | 1,836 | 4,795 | 1,836 |
| (Gain) loss on change in contractual interest rate (d) | 2,381 | - | 2,381 | (16,014) |
| Transaction costs and credit facility fees (e) | 317 | 889 | 999 | 1,590 |
| Business optimization expenses (f) | 5 | - | 1,743 | - |
| Other | 494 | 91 | 404 | 264 |
| Adjusted EBITDA | \$81,172 | \$83,060 | \$190,732 | \$245,090 |

(a) Represents the following non-cash charges for the three and nine months ended September 30, 2015 and 2014: losses on disposals of assets, unrealized mark-to-market adjustments on commodity contracts, certain foreign currency adjustments and certain purchase accounting related adjustments in connection with permitted business acquisitions, as defined in our credit agreement. Additionally, the nine months ended September 30, 2014 includes adjustments for certain earn-out obligations in connection with acquisitions (\$4.9 million).

Table Of Contents

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

The loss on disposals of assets described above result from the sale of assets that are no longer useful in our business and therefore represent 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 for a certain earn-out obligation in connection with acquisitions recorded in the nine months ended September 30, 2014, is a one-time charge that we believe does not reflect our ongoing operations.

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

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

(d) The amount for the three and nine months ended September 30, 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 at June 30, 2015. The amount for the nine months ended September 30, 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 at March 31, 2014.

(e) 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.

(f) Represents severance and non-recurring restructuring charges related to the integration of our facilities, which represent expenses that are not from our core operations and do not reflect our ongoing operations.

Adjusted Net Income

Adjusted Net Income is defined as net income before 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 the Company's debt, gains and losses on changes in cash flows related to the Company's debt, intangible asset impairment charges (as applicable), transaction costs, losses on extinguishment of debt, business optimization expenses, purchase accounting adjustments, and certain other non-cash gains and losses as reflected in the reconciliation table set forth below.

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

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

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

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

Table Of Contents

| (U.S. Dollars in thousands, except share and per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$34,036 | \$36,497 | \$68,565 | \$125,223 |
| Provision for income taxes | 19,218 | 18,365 | 38,864 | 66,285 |
| Income before provision for income taxes | 53,254 | 54,862 | 107,429 | 191,508 |
| Amortization of intangible assets | 6,285 | 5,277 | 17,460 | 15,721 |
| Amortization of deferred financing costs and original issue discount | 1,024 | 1,824 | 4,368 | 4,845 |
| Loss on extinguishment of debt | - | 1,836 | 4,795 | 1,836 |
| (Gain) loss on change in contractual interest rate | 2,381 | - | 2,381 | (16,014) |
| Transaction costs and other purchase accounting adjustments (a) | 979 | 565 | 1,482 | (4,134) |
| Business optimization expenses | 5 | - | 1,743 | - |
| Adjusted net income before provision for income taxes | 63,928 | 64,364 | 139,658 | 193,762 |
| Cash income tax expense (b) | (500) | (6,470) | (6,535) | (28,030) |
| Adjusted net income | \$63,428 | \$57,894 | \$133,123 | \$165,732 |
| Adjusted net income per common share - diluted: | \$0.92 | \$0.83 | \$1.91 | \$2.37 |
| Weighted average common shares outstanding - diluted: | 69,182,465 | 70,033,224 | 69,781,300 | 70,050,953 |

(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 nine months ended September 30, 2014 includes adjustments to certain earn-out obligations in connection with acquisitions (\$4.9 million).

(b) Amount for the three and nine months ended September 30, 2015 is based on an anticipated cash income tax rate of approximately 4% for the full year-ended 2015. Amount for the three and nine months ended September 30, 2014 is based on an anticipated cash income tax rate of approximately 14% for the full year-ended 2014.

New Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to Note 3, “Derivative Instruments and Hedging Activities,” to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of changes in commodity, currency and interest rate related risks and hedging activities. Otherwise, there have been no material changes in market risk from the information provided in Item 7A (Quantitative and Qualitative Disclosures About Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes during the three months ended September 30, 2015 in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table Of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings primarily involving product liability, employment matters and general commercial disputes arising in the ordinary course of our business. As of September 30, 2015, we believe that there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes in our risk factors since the February 27, 2015 filing of our Annual Report on Form 10-K for the year ended December 31, 2014, except for the additional risk factor presented below within the “Risk factors related to our business and industry.”

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

We are in the process of implementing a new ERP system as part of our ongoing efforts to improve and strengthen our operational and financial processes and our reporting systems. When implemented, the ERP system may not provide the benefits anticipated, could add costs and complications to ongoing operations, and may impact our ability to process transactions accurately and efficiently, all of which may have a material adverse effect on the Company’s business and results of operations.

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

There were no unregistered sales of equity securities for the three months ended September 30, 2015.

The following table summarizes our stock repurchase activity for the three months ended September 30, 2015, which consisted of the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on

behalf of the recipient and shares repurchased under the Company's \$200.0 million stock repurchase program:

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs | Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs |
|-------------------------|---|---|---|---|
| 07/01/2015 – 07/31/2015 | - | - | - | 200,000,000 |
| 08/01/2015 – 08/31/2015 | 1,240,633 | \$ 29.20 | 1,240,000 | 163,787,951 |
| 09/01/2015 – 09/30/2015 | 910,427 | 30.95 | 910,000 | 135,621,708 |
| Total | 2,151,060 | \$ 29.94 | | |

For equity compensation plan information, please refer to our Annual Report on Form 10-K for the year ended December 31, 2014.

Item 5. Other Information

On November 5, 2015, the Company amended its employment agreement with Aaron Jagdfeld, its Chief Executive Officer. The amendment provides that the term of the agreement will extend until November 5, 2018 and removes the previous evergreen renewal term which provided for automatic one-year renewals unless the Company provided notice within 90 days of the expiration date that it did not intend to renew the agreement. A copy of the employment agreement, as amended, is attached as Exhibit 10.1 to this Report.

Item 6. Exhibits

See "Exhibit Index" for documents filed herewith and incorporated herein by reference.

Table Of Contents

SIGNATURES

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

Generac Holdings Inc.

By: /s/ York A. Ragen

York A. Ragen

Chief Financial Officer

(Duly Authorized Officer and Principal Financial and Accounting Officer)

Dated: November 6, 2015

Table Of Contents

Item 6. EXHIBIT INDEX

| Exhibits Number | Description |
|----------------------------|--|
| 10.1* | Amended Employment Agreement between the Company and Aaron Jagdfeld, President and Chief Executive Officer, dated November 5, 2015. |
| 10.2* | Terms of Employment for Patrick Forsythe, Executive Vice President – Global Engineering, as set forth in Offer of Employment Letter dated May 27, 2015. |
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101* | The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related Notes to Condensed Consolidated Financial Statements. |

* Filed herewith.

** Furnished herewith.