GENERAC HOLDINGS INC.
Form 10-K
February 26, 2018

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

Or

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

For the transition period from to

Commission File Number 001-34627

GENERAC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant on June 30, 2017, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $2,189,264,580 based upon the closing price reported for such date on the New York Stock Exchange.

As of February 16, 2018, 62,325,716 shares of registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Annual Report to Stockholders for the year ended December 31, 2017 furnished to the Securities and Exchange Commission are incorporated by reference into Part II of this Form 10-K. Portions of the registrant’s Proxy Statement for the 2018 Annual Meeting of Stockholders (the “2018 Proxy Statement”), which will be filed by the registrant on or prior to 120 days following the end of the registrant’s fiscal year ended December 31, 2017, are incorporated by reference into Part III of this Form 10-K.

2017 FORM 10-K ANNUAL REPORT

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Forward-Looking Statements

This annual report contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “forecast,” “project,” “plan,” “intend,” “believe,” “confident,” “may,” “should,” “can have,” “likely,” “future,” “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 annual report are based on assumptions that we have made in light of our industry experience and on our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond our control) and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results and cause them to differ materially from those anticipated in the forward-looking statements. The forward-looking statements contained in this annual report include estimates regarding:

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

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

- frequency and duration of power outages impacting demand for our products;
- availability, cost and quality of raw materials and key components used in producing our products;
- the impact on our results of possible fluctuations in interest rates, foreign currency exchange rates, commodities and product mix;
- the possibility that the expected synergies, efficiencies and cost savings of our acquisitions will not be realized, or will not be realized within the expected time period;
- the risk that our acquisitions will not be integrated successfully;
- difficulties we may encounter as our business expands globally;
- our dependence on our distribution network;
- our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;
- loss of our key management and employees;

- increase in product and other liability claims or recalls; and
- changes in environmental, health and safety laws and regulations.

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

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

PART I

Item 1. Business

Founded in 1959, Generac Holdings Inc. (the Company or Generac) is a leading global designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light commercial and industrial markets. Power generation is our primary focus, which differentiates us from our main competitors that also have broad operations outside of the power equipment market. As the only significant market participant focused predominantly on these products, we have one of the leading market positions in the power equipment market in North America and an expanding presence internationally. We believe we have one of the widest ranges of products in the marketplace, including residential, commercial and industrial standby generators; as well as portable and mobile generators used in a variety of applications. Other engine powered products that we design and manufacture include light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters and pumps used in the oil & gas, construction and other industrial markets; and a broad product line of outdoor power equipment for residential and commercial use.

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

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

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

Reportable Segments

The Company has two reportable segments for financial reporting purposes – Domestic and International. The Domestic segment includes the legacy Generac business and the impact of acquisitions that are based in the United States, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the Ottomotores, Tower Light, Pramac and Motortech acquisitions, all of which have revenues that are substantially derived from outside the U.S. and Canada. Both reportable segments design and manufacture a wide range of power generation equipment and other engine powered products, which are discussed in further detail below in the context of our product classes. Refer to Note 6, "Segment Reporting," to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information.

Products

We design and manufacture stationary, portable and mobile generators with single-engine outputs ranging between 800W and 3,250kW. We have the ability to expand the power range for certain stationary generator solutions to much larger multi-megawatt systems through an integrated paralleling configuration called Modular Power Systems (MPS). Other engine powered products that we design and manufacture include light towers, mobile heaters, power washers and water pumps, along with a broad line of outdoor power equipment. We classify our products into three categories

based on similar range of power output geared for varying end customer uses: Residential products, Commercial & Industrial (C&I) products and Other products. The following summary outlines our portfolio of products, including their key attributes and customer applications.

Residential Products

Our residential automatic standby generators range in output from 6kW to 60kW, with manufacturer's suggested retail prices (MSRPs) from approximately $1,949 to $16,199. These products operate on natural gas, liquid propane or diesel and are permanently installed with an automatic transfer switch, which we also manufacture. Air-cooled engine residential standby generators range in outputs from 6kW to 22kW, are available in steel and aluminum enclosures and serve as an emergency backup for small to medium-sized homes. Liquid-cooled engine generators serve as emergency backup for larger homes and small businesses and range in output from 22kW to 60kW. We also provide a cellular-based remote monitoring system for home standby generators called *Mobile Link*™, which allows our customers to check the status of their generator conveniently from a desktop PC, tablet computer or smartphone, and also provides the capability to receive maintenance and service alerts.

We provide a broad product line of portable and inverter generators that are fueled predominantly by gasoline, with certain models running on propane and diesel fuel, which range in size from 800W to 17.5kW. These products serve as an emergency home backup source of electricity and are also used for construction and recreational purposes. Our portable generators are targeted at homeowners, with price points ranging between the consumer value end of the market through the premium homeowner market; at professional contractors, starting at the value end through the premium contractor segment; and at the recreational market with our inverter product line. In addition, we offer manual transfer switches to supplement our portable generator product offering.

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

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

Residential products comprised 52.0%, 53.5% and 51.2%, respectively, of total net sales in 2017, 2016 and 2015.

Commercial & Industrial Products

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

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

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

Our MPS technology combines the power of several smaller generators to produce the output of a larger generator, providing our customers with redundancy and scalability in a cost-effective manner. For larger industrial applications, our MPS products offer customers an efficient, affordable way to scale their standby power needs, and also offers

superior reliability given its built-in redundancy which allows individual units to be taken off-line for routine maintenance while retaining coverage for critical circuits.

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

The acquisition of Motortech in January 2017 added gaseous-engine control systems and accessories which are sold primarily to European gas-engine manufacturers and to aftermarket customers.

C&I products comprised 41.0%, 38.6% and 41.6% respectively, of total net sales in 2017, 2016 and 2015.

Other Products

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

Other products comprised 7.0%, 7.9% and 7.2%, respectively, of total net sales in 2017, 2016 and 2015.

Distribution Channels and Customers

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

We believe our distribution network is a competitive advantage that has strengthened over the years as a result of adding, expanding and developing the various distribution channels through which we sell our products. We offer a broad set of tools, programs and factory support to help our distribution partners be successful. Our network is well balanced with no customer providing more than 6% of our sales in 2017.

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

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

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

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

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

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

The distribution for our mobile products includes international, national, regional and specialty equipment rental companies, equipment distributors and construction companies, which primarily serve non-residential building construction, road construction, energy markets and special events. In addition, international acquisitions over the past several years have provided access to numerous independent distributors in over 150 countries.

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

Business Strategy

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

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

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

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

Expanding global presence. We have increased our revenues shipped outside the U.S. and Canada in recent years, with sales outside this region accounting for approximately 22% of our revenues during 2017, as compared to approximately 20% and 10% in 2016 and 2015, respectively. This increase is largely the result of acquisitions made that comprise our International segment – Ottomotores, Tower Light, Pramac and Motortech. These businesses have significantly increased our global presence by adding product, manufacturing and distribution capabilities that serve local markets around the world, and have resulted in us becoming a leading global player in the markets for backup power and mobile power equipment. As we look forward, we intend to leverage our increased international footprint attained from these acquisitions to serve the over $13 billion annual market for power generation equipment outside the U.S. and Canada. We also intend to improve the profit margins of our International segment by executing on several revenue and cost synergies, and driving organic growth in existing markets with additional investment and focus, including the expanding opportunity for global gaseous-fueled products. We will continue to evaluate other opportunities to expand into additional regions of the world through both organic initiatives and potential acquisitions.

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

Manufacturing

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

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

Research and Development

Our primary focus on power generation equipment and other engine powered products drives technological innovation, specialized engineering and manufacturing competencies. Research and development (R&D) is a core competency and includes a staff of over 350 engineers working on numerous projects. Our total R&D expense was $42.9 million, $37.2 million and $32.9 million for the years ended December 31, 2017, 2016 and 2015, respectively. R&D is conducted at various facilities worldwide, including a recent expansion of our advanced engineering labs at our corporate headquarters and the addition of a Chinese technology center in Suzhou, China. These activities are focused on developing new technologies and product enhancements as well as maintaining product competitiveness by improving manufacturing costs, safety characteristics, reliability and performance while ensuring compliance with regulatory standards. We have over 30 years of experience using natural gas engines and have developed specific expertise with fuel systems and emissions technology. In the residential and light commercial markets, we have developed proprietary engines, cooling packages, controls, fuel systems and emissions systems. We believe that our expertise in engine powered equipment gives us the capability to develop new products that will allow continued diversification in our end markets.

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Intellectual Property

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

Suppliers of Raw Materials

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

Competition

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

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

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

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

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

Employees

As of December 31, 2017, we had 4,556 employees (4,017 full time and 539 part-time and temporary employees). Of those, 2,393 employees were directly involved in manufacturing at our manufacturing facilities.

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

Regulation, including Environmental Matters

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

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

Available Information

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

Executive Officers

The following table sets forth information regarding our executive officers:

Name	Age	Position
Aaron P. Jagdfeld	46	President, Chief Executive Officer and Chairman
York A. Ragen	46	Chief Financial Officer
Russell S. Minick	57	Chief Marketing Officer
Jeffrey Mueller	49	President / General Manager – Consumer Power
Erik Wilde	43	Executive Vice President, Industrial, Americas
Roger F. Pascavis	57	Executive Vice President, Strategic Global Sourcing
Patrick Forsythe	50	Executive Vice President, Global Engineering

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

Wisconsin office of Deloitte and Touche. Mr. Jagdfeld holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Whitewater.

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

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

Jeffrey Mueller began serving as our President / General Manager – Consumer Power in November 2017. Mr. Mueller was Group President for Broan-Nutone from 2014 prior to joining Generac. Prior to his time at Broan, Mr. Mueller was at Kohler Company from 1991 where he held various U.S. and international executive-level positions in the Kitchen & Bath & Interiors Group, including President of Kohler’s faucet business globally. He is a Marquette University alumnus where he earned an Executive MBA with an international focus and a Bachelor of Science degree in Mechanical Engineering.

Erik Wilde began serving as our Executive Vice President, Industrial, Americas in July 2016. Mr. Wilde was Vice President and General Manager of the Mining Division for Komatsu America Corp. from 2013 until he joined Generac. Prior to that role, he held leadership positions as Vice President of the ICT Business Division and Product Marketing back to 2005. Mr. Wilde holds a Bachelor of Business Administration in Management from Boise State University and an M.B.A. from Keller Graduate School of Management.

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

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

Item 1A. Risk Factors

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

Risk factors related to our business and industry

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

Sales of our products are subject to consumer buying patterns, and demand for the majority of our products is affected by power outage events caused by thunderstorms, hurricanes, ice storms, blackouts and other power grid reliability issues. The impact of these outage events on our sales can vary depending on the location, frequency and severity of the outages. Sustained periods without major power disruptions can lead to reduced consumer awareness of the benefits of standby and portable generator products and can result in reduced sales growth rates and excess inventory. There are smaller, more localized power outages that occur frequently that drive a baseline level of demand for

back-up power solutions. The lack of major power-outage events and fluctuations to the baseline levels of power-outage activity are part of managing our business, and these fluctuations could have an adverse effect on our net sales and profits. Despite their unpredictable nature, we believe power disruptions create awareness and accelerate adoption for our home standby products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our products are subject to substantial government regulation.

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

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

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

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

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

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

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

We may experience material disruptions to our manufacturing operations.

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

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

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

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

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

- inflation or changes in political and economic conditions;
- unstable regulatory environments;
- changes in import and export duties;
- domestic and foreign customs and tariffs;
- currency rate fluctuations;
- trade restrictions;
- labor unrest;
- logistical challenges, including extended container port congestion;
- communications challenges; and
- other restraints and burdensome taxes.

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

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

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

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

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

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

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Indefinite-lived intangibles are comprised of certain tradenames. At December 31, 2017, goodwill and other indefinite-lived intangibles totaled $849.8 million. We review goodwill and other intangibles at least annually for impairment and any excess in carrying value over the estimated fair value is charged to the statement of comprehensive income. Future impairment may result from, among other things, deterioration in the performance of an acquired business or product line, adverse market conditions and changes in the competitive landscape, adverse changes in applicable laws or regulations, including changes that restrict the activities of an acquired business or product line, and a variety of other circumstances. A reduction in net income resulting from the write-down or impairment of goodwill or indefinite-lived intangibles could have a material adverse effect on our financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

Recently enacted U.S. tax legislation, as well as future U.S. tax legislation, may adversely affect our business, results of operations, financial condition and cash flow.

On December 22, 2017, the President signed into law Public Law No. 115-97, a comprehensive tax reform bill commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) that makes significant changes to U.S. federal income tax laws. We have performed a preliminary assessment of the impact of the Tax Act. However, as the Tax Act is complex and far-reaching, there could be future effects of the Tax Act that we have not identified and that could have an adverse effect on our business, results of operations, financial condition and cash flow.

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Risks related to our common stock

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

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

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

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

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

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

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

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

Risks related to our capital structure

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

As of December 31, 2017, we had total indebtedness of $928.7 million. Our level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our indebtedness, combined with our other financial obligations and contractual commitments could have other important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, which could result in an event of default under the agreements governing our indebtedness;
- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;
- require us to dedicate a portion of our cash flow from operations to interest payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes.

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

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

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

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Price Range of Common Stock

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

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

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

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Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table summarizes the stock repurchase activity for the three months ended December 31, 2017, which also consisted of the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on behalf of the recipient:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs
10/01/17 - 10/31/17	79	$ 51.77	-	$ 170,108,876
11/01/17 - 11/30/17	641	49.21	-	170,108,876
12/01/17 - 12/31/17	-	-	-	170,108,876
Total	720	$ 49.49		

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

Stock Performance Graph

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

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

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Holders

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

Dividends

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

Securities Authorized for Issuance Under Equity Compensation Plans

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

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Registered Securities

Not applicable.

Item 6. Selected Financial Data

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

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

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

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

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

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

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

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

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

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

(6) As a result of the Tax Act, we recognized a one-time, non-cash benefit of $28.4 million in the fourth quarter of 2017 primarily from the impact of the revaluation of the net deferred tax liabilities. Refer to Note 13, “Income Taxes,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Tax Act and its impact.

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

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

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

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

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

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

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

- we do not consider indicative of our ongoing operating performance, such as non-cash write-downs and other charges, non-cash gains, write-offs relating to the retirement of debt, severance costs and other restructuring-related

business optimization expenses;

we believe to be akin to, or associated with, interest expense, such as administrative agent fees, revolving credit facility commitment fees and letter of credit fees; or

are non-cash in nature, such as share-based compensation expense.

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

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

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

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

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

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

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

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

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

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

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

The gains/losses on disposals of assets result from the sale of assets that are no longer useful in our business and therefore represent gains or losses that are not from our core operations;

The adjustments for unrealized mark-to-market gains and losses on commodity contracts represent non-cash items to reflect changes in the fair value of forward contracts that have not been settled or terminated. We believe it is useful to adjust net income for these items because the charges do not represent a cash outlay in the period in which the charge is incurred, although Adjusted EBITDA must always be used together with our U.S. GAAP statements of comprehensive income and cash flows to capture the full effect of these contracts on our operating performance;

The purchase accounting adjustments represent non-cash items to reflect fair value at the date of acquisition, and therefore do not reflect our ongoing operations; and

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

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

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

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

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

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

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

transaction costs relating to the acquisition of a business; and

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

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

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

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

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

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

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

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

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

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

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

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

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

Overview

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

Recent Developments

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

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Business Drivers and Operational Factors

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

Business Drivers and Trends

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

Increasing penetration opportunity. Many potential customers are still not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 4.0% of U.S. single-family detached, owner-occupied households with a home value of over $100,000, as defined by the U.S. Census Bureau's 2015 American Housing Survey for the United States. The decision to purchase backup power for many light-commercial buildings such as convenience stores, restaurants and gas stations is more return-on-investment driven and as a result these applications have relatively lower penetration rates as compared to buildings used in code-driven or mission critical applications such as hospitals, wastewater treatment facilities, 911 call centers, data centers and certain industrial locations. The emergence of lower cost, cleaner burning natural gas fueled generators has helped to increase the penetration of standby generators over the past decade in the light-commercial market. In addition, the installed base of backup power for telecommunications infrastructure is still increasing due to the growing importance for uninterrupted voice and data services. We believe by expanding our distribution network, continuing to develop our product line, and targeting our marketing efforts, we can continue to build awareness and increase penetration for our standby generators for residential, commercial and industrial purposes.

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

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

Impact of business capital investment cycles. The global market for our commercial and industrial products is affected by different capital investment cycles, which can vary across the numerous regions around the world in which we participate. These markets include non-residential building construction, durable goods and infrastructure spending as well as investments in the exploration and production of oil & gas, as businesses or organizations either add new locations or make investments to upgrade existing locations or equipment. These trends can have a material impact on demand for these products. The capital investment cycle may differ for the various commercial and industrial end markets that we serve including light commercial, retail, telecommunications, industrial, data centers, healthcare, construction, oil & gas and municipal infrastructure, among others. The market for these products is also affected by general economic and geopolitical conditions as well as credit availability in the geographic regions that we serve. In addition, we believe demand for our mobile power products will continue to benefit from a secular shift towards renting versus buying this type of equipment. We believe the passage of the Tax Act in late 2017 could have a favorable impact on future demand within many of the end markets that we serve, as the improved cash flow, liquidity and business sentiment may lead to further investments in equipment, facilities and infrastructure in the United States.

Factors Affecting Results of Operations

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

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

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

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

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

Factors influencing provision for income taxes and cash income taxes paid. On December 22, 2017, the U.S. government enacted the Tax Act, which significantly changes how the U.S. taxes corporations. The Tax Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our interpretation.

As a result of the Tax Act, we recognized a one-time, non-cash benefit of $28.4 million in the fourth quarter of 2017 primarily from the impact of the revaluation of our net deferred tax liabilities. While the Company continues to assess the full impact of the Tax Act, the preliminary analysis suggests a meaningful benefit from the legislation. Specifically for 2018, the combined federal and state effective tax rate is expected to decline to between 25 to 26%, resulting in lower cash income taxes. As we complete our analysis of the Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made. Refer to Note 13, “Income Taxes,” to the consolidated financial statements in Item 8 of this Annual Report on Form 10-K for further information on the Tax Act and its impact.

Further, we had approximately $470 million of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2017 related to our acquisition by CCMP Capital Advisors, LLC in 2006 that we expect to generate aggregate cash tax savings of approximately $122 million through 2021, assuming continued profitability and a 26% combined federal and state tax rate. The aggregate cash tax savings reflects a decrease of $61 million due to a reduction in the assumed tax rate from 39% to 26% as a result of the Tax Act. The recognition of the tax benefit associated with these assets for tax purposes is expected to be $122 million annually through 2020 and $102 million in 2021, which generates annual cash tax savings of $32 million through 2020 and $26 million in 2021, assuming profitability and a 26% combined federal and state tax rate. As a result of the asset acquisition of the Magnum business in the fourth quarter of 2011, we had approximately $34 million of incremental tax deductible goodwill and intangible assets remaining as of December 31, 2017. We expect these assets to generate aggregate cash tax savings of $9.0 million through 2026 assuming continued profitability and a 26% combined federal and state tax rate. The aggregate cash tax savings reflects a decrease of $4.5 million due to a reduction in the assumed tax rate from 39% to 26% as a result of the Tax Act. The amortization of these assets for tax purposes is expected to be $3.8 million annually through 2025 and $2.8 million in 2026, which generates an additional annual cash tax savings of $1.0 million through 2025 and $0.7 million in 2026, assuming profitability and a 26% combined federal and state tax rate. Based on current business plans, we believe that our cash tax obligations through 2026 will be significantly reduced by these tax attributes. Other domestic acquisitions have resulted in additional tax deductible goodwill and intangible assets that will generate tax savings, but are not material to the Company’s consolidated financial statements.

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

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Components of Net Sales and Expenses

Net Sales

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

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

Costs of Goods Sold

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

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

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

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

Operating Expenses

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

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

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

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

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

Other (Expense) Income

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Financial Position

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

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Our credit agreements originally provided for a $1.2 billion term loan B credit facility (Term Loan) and include a $300.0 million uncommitted incremental term loan facility. The Term Loan matures on May 31, 2023. The Term Loan currently bears interest at rates based upon either a base rate plus an applicable margin of 1.00% or adjusted LIBOR rate plus an applicable margin of 2.00%, subject to a LIBOR floor of 0.75%. As of December 31, 2017, the Company is in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

Our credit agreements also provide for the $250.0 million Amended ABL Facility. The maturity date of the Amended ABL Facility is May 29, 2020. As of December 31, 2017, there was $249.7 million of availability under the Amended ABL Facility, net of outstanding letters of credit. The Company is in compliance with all covenants of the Amended ABL Facility.

In August 2015, our Board of Directors approved a $200.0 million stock repurchase program, which we completed in the third quarter of 2016. In October 2016, our Board of Directors approved another stock repurchase program, under which we may repurchase an additional $250.0 million of common stock over 24 months from time to time; in amounts and at prices we deem appropriate, subject to market conditions and other considerations. During the year ended December 31, 2017, we repurchased 844,500 shares of our common stock for $30.0 million; during the year ended December 31, 2016, we repurchased 3,968,706 shares of our common stock for $149.9 million; and during the year ended December 31, 2015, we repurchased 3,303,500 shares of our common stock for $99.9 million, all funded with cash on hand.

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

Long-term Liquidity

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

Cash Flow

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Senior Secured Credit Facilities

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

Covenant Compliance

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

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

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

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Contractual Obligations

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

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

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

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

Capital Expenditures

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

Off-Balance Sheet Arrangements

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

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

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

Critical Accounting Policies

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

Goodwill and Other Indefinite-Lived Intangible Assets

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

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

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

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

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

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

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

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

Business Combinations and Purchase Accounting

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

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Defined Benefit Pension Obligations

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

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

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

Income Taxes

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

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

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

New Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency

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

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

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

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Commodity Prices

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

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

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

Interest Rates

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

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

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