

GENERAC HOLDINGS INC.

Form 10-K

February 27, 2015

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**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, 2014**

**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**

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**GENERAC HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**20-5654756**

(IRS Employer Identification No.)

**S45 W29290 Hwy. 59, Waukesha, WI**

(Address of principal executive offices)

**53189**

(Zip Code)

**(262) 544-4811**

(Registrant's telephone number, including area code)

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

**Common Stock, \$0.01 par value**  
(Title of class)

**New York Stock Exchange**  
(Name of exchange on which registered)

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$3,302,158,395 based upon the closing price reported for such date on the New York Stock Exchange.

As of February 20, 2015, 69,093,775 shares of registrant's common stock were outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Annual Report to Shareholders for the year ended December 31, 2014 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 2015 Annual Meeting of Stockholders (the "2015 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, 2014, are incorporated by reference into Part III of this Form 10-K.

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**2014 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:

demand for our products;  
frequency and duration of power outages;  
availability, cost and quality of raw materials and key components used in producing our products;  
the impact on our results of possible fluctuations in interest rates and foreign currency exchange rates;  
the possibility that the expected synergies, efficiencies and cost savings of our acquisitions will not be realized, or will not be realized within the expected time period;  
the risk that our acquisitions will not be integrated successfully;  
difficulties we may encounter as our business expands globally;  
competitive factors in the industry in which we operate;  
our dependence on our distribution network;

our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;  
loss of our key management and employees;  
increase in product and other liability claims; 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.

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

## **PART I**

### **Item 1. Business**

We are a leading designer and manufacturer of a wide range of power generation equipment and other engine powered products serving the residential, light commercial, industrial, oil & gas, and construction markets. Power generation is our primary focus, which differentiates us from our primary competitors that also have broad operations outside of the generator market. As the only significant market participant focused predominantly on these products, we have one of the leading market positions in the power equipment market in North America and an expanding presence internationally. We believe we have one of the widest range of products in the marketplace, including residential, commercial and industrial standby generators, as well as portable and mobile generators used in a variety of applications. Other engine powered products that we design and manufacture include light towers which provide temporary lighting for various end markets; commercial and industrial mobile heaters used in the oil & gas, construction and other industrial markets; and a broad product line of power washers 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 primarily across the U.S and Canada, with an expanding presence internationally in Latin America, Europe, the Middle East, Africa and Asia/Pacific regions. Products are sold into these regions through a broad network of independent dealers, distributors, retailers, wholesalers and equipment rental companies under the Generac®, Magnum™, Ottomotores™, Tower Light™, Powermate®, Dewalt®, MAC™ and Honeywell® brand names. We also sell direct to certain national and regional account customers that are the end users of our products.

We have a significant market share in the residential and light commercial generator markets, which we believe are currently under penetrated. 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 the most comprehensive support and programs from the factory. In addition, through recent acquisitions, we are also a leading provider of light towers, mobile generators and flameless heaters, as well as a supplier of industrial diesel generators ranging in sizes up to 3,250kW.

## **History**

Generac Holdings Inc. (the Company) is a Delaware corporation whose principal operating subsidiary is Generac Power Systems, Inc., (collectively Generac). Generac was founded in 1959 to market a line of affordable portable generators that offered superior performance and features. Through innovation and focus, we have grown to be a leading provider of power generation equipment to the residential, light commercial, industrial, oil & gas and construction markets.

Key events in our history include the following:

In 1980, we expanded beyond portable generators into the industrial market with the introduction of our first stationary generators that provided up to 200 kW of power output.

We introduced our first residential standby generator in 1989, and expanded our industrial product development and global distribution system in the 1990s, forming a series of alliances that tripled our higher output generator sales.

In 1998, we sold our Generac® portable products business (which included portable generator and pressure washer product lines) to a private equity firm who eventually sold this business to another company.

Our growth accelerated in 2000 as we expanded our residential automatic standby generator product offering, implemented our multi-layered distribution philosophy, and introduced our quiet-running QT Series generators in 2005, accelerating our penetration in the commercial market.

In 2006, the founder of Generac Power Systems sold the company to affiliates of CCMP Capital Advisors, LLC (CCMP), together with certain other investors and members of our management (CCMP Transaction).



In 2008, we successfully expanded our position in the portable generator market after the expiration of our non-compete agreement that was entered into when we sold our Generac® portable products business in 1998. In February 2010, we completed our initial public offering (IPO) of 20.7 million primary shares of our common stock (including additional share over allotment).

In early 2011, we re-entered the market for gasoline-powered pressure washers (or power washers), which we previously exited in 1998 with the sale of our Generac® portable products business.

In August 2013, CCMP completed the last of a series of sale transactions that began in November 2012 by which it sold substantially all of the shares of common stock that it owned as of the initial public offering.

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

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Today, we design and manufacture a full line of power generation equipment and other engine powered products for a wide variety of applications and markets. We have demonstrated a long track record of achieving significant revenue growth through product innovation, expanded distribution and increased awareness of our products. Our success is built on engineering expertise, manufacturing & sourcing excellence and our innovative approaches to the market.

## **Products**

We design and manufacture stationary, portable and mobile generators with single-engine outputs ranging between 800W and 3,250kW, with the ability to expand the power range for certain stationary generator solutions to much larger multi-megawatt systems through our Modular Power Systems (MPS), an integrated paralleling configuration. Other engine powered products that we design and manufacture include light towers, mobile heaters, power washers and pumps. 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 \$1,799 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*<sup>TM</sup>, 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 or service alerts.

In 2014, we introduced a new 22kW air-cooled engine standby generator which provides the highest output for an air-cooled generator currently available in the marketplace. Another new product introduction during 2014 was the Guardian Synergy, the industry's first variable-speed residential standby generator and is a best-in-class, much quieter, more fuel-efficient generator with exceptionally clean power output. Also during 2014, we launched the industry's most cost-effective automatic home standby generator called the PowerPact, which combines all the benefits of automatic operation with many of the features found in Generac's market-leading Guardian series, with the 7kW unit starting at an affordable \$1,899 at retail.

We provide a broad product line of portable generators that are fueled predominantly by gasoline, with certain models running on propane, which range in size from 800W to 17,500W. These products serve as an emergency home backup source of electricity and are also used for construction and recreational purposes. Our portable generators are targeted at homeowners, with price points ranging between the consumer value end of the market through the premium homeowner market, at professional contractors, starting at the value end through the premium contractor segment, as well as inverter generators targeted for the recreational market. In addition, we offer manual transfer switches to supplement our portable generator product offering. Our portable generators are offered under the Generac®, Powermate®, Dewalt® and Honeywell® brand names

We also provide a broad product line of engine driven power washers, which are fueled by gasoline, that range in PSI from 2,000 to 4,200 that are used for residential and commercial use. We recently introduced a product line of water pumps built to meet the water removal needs of homeowners, farmers, construction crews and other end-user applications.

Residential power products comprised 49.5%, 56.8% and 60.0%, respectively, of total net sales in 2014, 2013 and 2012.

### ***Commercial & Industrial Products***

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

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

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

The acquisition of Baldor Generators in November 2013 enabled us to offer single-engine industrial generators larger than 600kW within the U.S. and Canada. The Baldor Generators product offering includes stationary and containerized packages up to 2,500kW that can be used in standby applications and in certain configurations in prime or continuous-duty power applications. The addition of these products significantly expanded our industrial product offering and the addressable domestic market that our distribution partners can serve.

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.

Our light towers, mobile generators and mobile heaters 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.

We introduced several new commercial and industrial products in 2014. We further expanded our broad line up of natural gas generators with the introduction of a new 400kW power node at an industry leading price point. In addition to new stationary products, we also introduced a new vertical-mast light tower called the MLT6S, which provides the most compact footprint in the industry, improved ease of use, transportation, run time and serviceability.

C&I power products comprised 44.6%, 38.4% and 34.9% respectively, of total net sales in 2014, 2013 and 2012.

## ***Other Products***

We sell aftermarket service parts to our dealers and proprietary engines to third-party original equipment manufacturers (OEMs).

Other power products comprised 5.9%, 4.8% and 5.1%, respectively, of total net sales in 2014, 2013 and 2012.

### **Distribution Channels and Customers**

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

We believe our distribution network is a competitive advantage that has strengthened over the last decade as a result of adding and expanding the various distribution channels through which we sell our products. Our network is well balanced with no customer providing more than 8% of our sales in 2014.

Our overall dealer network, which is located principally in the United States, Canada and Latin America, is the industry's largest network of factory direct independent generator contractors. In addition, our Tower Light business provides access to numerous independent distributors in over 50 countries.

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 U.S. and Canada. The industrial distributors and dealers provide industrial and commercial end users with ongoing sales and product support. Our industrial distributors and dealers maintain the local relationships with commercial electrical contractors, specifying engineers and national account regional buying offices. In recent years, we have been particularly focused on expanding our dealer network in Latin America and other regions of the world in order to expand our international sales opportunities.

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

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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.

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.

## **Business Strategy**

We believe our growth over the last several years is due in part to the development and execution of our "Powering Ahead" strategy. Since shortly after our initial public offering in 2010, this strategic plan has served as the framework for the significant investments we have made to drive the growth 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 category, 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 further optimizing our innovative sales and marketing techniques introduced in recent years to further extend the awareness of home standby generators. In addition, we intend to continue to focus on innovation in this emerging product category and introduce new products into the marketplace. With only approximately 3.5% penetration of the addressable market of U.S. homes (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 2013 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 our efforts to develop and improve our industrial distribution, further increase our addressable market with new products and increase the rate at which our products are specified in C&I power generation applications. In addition, we will attempt to gain incremental market share through our leading position in the growing market for cleaner burning, more cost effective natural gas fueled back-up power solutions. While still a much smaller portion of the overall C&I market, we believe demand for these products continues to increase at a faster rate than traditional diesel fueled generators as a result of their lower capital investment and operating costs. We also believe there is an opportunity to provide smaller, more cost effective generators marketed aggressively towards the underpenetrated “optional” standby generator market which includes smaller footprint commercial buildings.

***Diversifying end markets by expanding product offerings and services.*** In recent years, we have diversified our end markets with new product and service platforms. Much of this diversification has been achieved with our strategic acquisitions over the last four years. We now have access to several new products, new markets and new customers through the purchase of Magnum in October 2011, Ottomotores in December 2012, Tower Light in August 2013, Baldor Generators in November 2013 and MAC in October 2014. As a result of these acquisitions, we now have access to a broader lineup of mobile power products and higher-output generators, including products that serve the oil & gas and other infrastructure power markets. We are now a more balanced company relative to our residential product sales as compared to only four years ago, as revenues for our C&I products have expanded from 31.0% of total net sales in 2010 to 44.6% in 2014. Additionally, our re-entry into the market for power washers in 2011 allowed us to further diversify our company with the addition of this platform. As we continue to build upon our recent diversification efforts, we intend to evaluate other products and services which we believe could further diversify our end markets.



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***Expanding into new geographies.*** During 2014, approximately 9% of our revenues were shipped to regions outside the U.S. and Canada. Given that the global market for power generation equipment is estimated to exceed \$16 billion annually, we believe there are growth opportunities for Generac by expanding into new geographies. Prior to 2012, these efforts had been mostly organic with the creation of a dedicated sales team and the addition of new distribution points around the globe, with a focus in Latin America. The acquisitions of Ottomotores, located in Latin America, and Tower Light, located in Europe, provide us with an enhanced platform and immediate scale for our international growth initiatives, and also accelerate our efforts to become a more global player in the markets for backup power and mobile power equipment. As we look forward, we expect to drive growth in the key markets they serve with additional investment and focus, and we intend to leverage these acquisitions while also evaluating other opportunities to expand into other regions of the world. This is targeted to be accomplished through both organic growth and potential acquisitions, and by establishing and developing additional distribution globally and building the Generac brand internationally.

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 several manufacturing plants, distribution facilities and inventory warehouses located principally in the United States, Mexico, Italy and Brazil totaling over three and a half million square feet. We maintain inventory warehouses in the United States that accommodate material storage and rapid response requirements of our customers.

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 generators and engine powered equipment drives technological innovation, specialized engineering and manufacturing competencies. Research and development is a core competency and includes a staff of over 250 engineers working on numerous active projects. Our sponsored research and development expense was \$31.5 million, \$29.3 million and \$23.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Research and development is conducted at each of our manufacturing facilities worldwide and is focused on developing new technologies and product enhancements as well as maintaining product competitiveness by improving manufacturing costs, safety characteristics, reliability and performance while ensuring compliance with regulatory standards. We have over 30 years of experience using natural gas engines and have developed specific expertise with fuel systems and emissions technology. In the residential and light commercial markets, we have developed proprietary engines, cooling packages, controls, fuel systems and emissions systems. We believe that our expertise in engine powered equipment gives us the capability to develop new products that will allow continued diversification in our end markets.

## **Intellectual Property**

We rely on a combination of patents and trademarks to establish and protect our proprietary rights. Our commitment to research and development has resulted in a portfolio of over 170 U.S. and international patents and patent applications. Our patents expire between 2015 and 2032 and 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. Newly issued U.S. patents generally have a life of 20 years from the date the patent application is initially filed. U.S. and international trademark registrations generally have a perpetual duration if they are properly maintained and renewed. 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 abroad. Our strategic global sourcing function continuously evaluates the quality and cost structure of our products and assesses the capabilities of our supply chain. Components are sourced accordingly based on this evaluation. Our supplier quality engineers conduct on-site audits of major supply chain partners and help to maintain the reliability of critical sourced components. In 2014, we sourced approximately 55% of our materials and components from outside the United States.

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**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 and mobile equipment providers, both domestic and internationally. However, specifically in the generator market, most of the traditional participants compete on a more specialized basis, focused on specific applications within their larger diversified product mix. We are the only significant market participant with a primary focus on power generation with a core emphasis on standby, portable and mobile generators with broad capabilities across the residential, light commercial, industrial, oil & gas, and construction generator markets. We believe that our engineering capabilities and core focus on generators provide us with manufacturing flexibility and enable 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 standby generators*** - Kohler, Briggs & Stratton and Cummins, each of which also have broad operations in other manufacturing businesses.

***Portable generators*** - Honda, Briggs & Stratton, Champion and Techtronics International (TTI), along with a number of smaller domestic and foreign competitors.

***Power washers*** - Briggs & Stratton, TTI, FNA Group, Mi-T-M and Karcher.

***Standby commercial and industrial generators*** - Caterpillar, Cummins, Kohler, MTU, Stemac and FG Wilson, certain of which focus on the market for diesel generators as they are also diesel engine manufacturers. Also includes other regional packagers that serve local markets throughout the world.

***Mobile generators*** - Doosan, Wacker and MultiQuip

***Light towers*** - Terex, Briggs & Stratton (Allmand), Wacker and Atlas Copco

**Mobile heaters** - Wacker, Briggs & Stratton (Allmand), Flagro and Frost Fighter

In a continuously evolving sector, 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, 2014, we had 3,587 employees (3,198 full time and 389 part-time and temporary employees). Of those, 2,221 employees were directly involved in manufacturing at our manufacturing facilities.

Domestically, we have had an “open shop” bargaining agreement for the past 49 years. The current agreement, which expires October 17, 2016, 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 foreign, federal, state, and local 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.

(i)

Sole power to vote or to direct the vote

0

(ii)

Shared power to vote or to direct the vote

5,105,689 shares of Common Stock (See Item 4)

(iii)

Sole power to dispose or to direct the disposition of

0

(iv)

Shared power to dispose or to direct the disposition of

5,105,689 shares of Common Stock (See Item 4)

**Item 5.**

**Ownership of Five Percent or Less of a Class**

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following o.

**Item 6.**

**Ownership of More than Five Percent on Behalf of Another Person**

NA

**Item 7.**

**Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person**

NA

**Item 8.**

**Identification and Classification of Members of the Group**

NA

**Item 9.**

**Notice of Dissolution of Group**

NA

**Item 10.**

**Certification**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

**Signature**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: September 27, 2010

**GATES CAPITAL MANAGEMENT, INC.**

By: /s/ Jeffrey L. Gates  
Jeffrey L. Gates, President

**GATES CAPITAL PARTNERS, L.P.**

By: Gates Capital Management, Inc.  
Its Investment Manager

By: /s/ Jeffrey L. Gates  
Jeffrey L. Gates, President

**ECF VALUE FUND, L.P.**

By: Gates Capital Partners, L.P.  
Its General Partner

By: Gates Capital Management, Inc.  
Its Investment Manager

By: /s/ Jeffrey L. Gates  
Jeffrey L. Gates, President

**ECF VALUE FUND II, L.P.**

By: Gates Capital Partners, L.P.  
Its General Partner

By: Gates Capital Management, Inc.  
Its Investment Manager

By: /s/ Jeffrey L. Gates  
Jeffrey L. Gates, President

**ECF VALUE FUND INTERNATIONAL, LTD.**

By: Gates Capital Management, Inc.  
Its Investment Manager

By: /s/ Jeffrey L. Gates  
Jeffrey L. Gates, President

**JEFFREY L. GATES**

By: /s/ Jeffrey L. Gates  
Jeffrey L. Gates