

GENERAC HOLDINGS INC.
Form 10-Q
May 13, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission file number 001-34627

GENERAC HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-5654756
(IRS Employer
Identification No.)

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

53189
(Zip Code)

(262) 544-4811

(Registrant's telephone number, including area code)

Not Applicable

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 9, 2011, there were 67,565,154 shares of the Registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | March 31, 2011 (Unaudited) | December 31, 2010 |
|--|----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 89,997 | \$ 78,583 |
| Accounts and notes receivable, less allowance for doubtful accounts | 62,410 | 63,154 |
| Inventories | 143,787 | 127,137 |
| Prepaid expenses and other assets | 3,800 | 3,645 |
| Total current assets | 299,994 | 272,519 |
| Property and equipment, net | 74,914 | 75,287 |
| Customer lists, net | 87,481 | 96,944 |
| Patents, net | 83,004 | 84,933 |
| Other intangible assets, net | 6,148 | 6,483 |
| Deferred financing costs, net | 5,320 | 5,822 |
| Trade names | 140,050 | 140,050 |
| Goodwill | 527,148 | 527,148 |
| Other assets | 259 | 697 |
| Total assets | \$ 1,224,318 | \$ 1,209,883 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 52,212 | \$ 41,809 |
| Accrued wages and employee benefits | 6,530 | 6,833 |
| Other accrued liabilities | 35,949 | 38,043 |
| Current portion of long-term debt | 24,731 | - |
| Total current liabilities | 119,422 | 86,685 |
| Long-term debt | 632,498 | 657,229 |
| Other long-term liabilities | 23,623 | 24,902 |
| Total liabilities | 775,543 | 768,816 |
| Stockholders' equity: | | |
| Common stock (formerly Class A non-voting common stock), par value \$0.01, 500,000,000 | 675 | 675 |

shares authorized, 67,565,154 and 67,524,596
 shares issued at March 31, 2011 and December 31,
 2010, respectively

| | | |
|--|--------------|--------------|
| Additional paid-in capital | 1,136,227 | 1,133,918 |
| Excess purchase price over predecessor basis | (202,116) | (202,116) |
| Accumulated deficit | (476,814) | (481,658) |
| Accumulated other comprehensive loss | (9,197) | (9,752) |
| Total stockholders' equity | 448,775 | 441,067 |
| Total liabilities and stockholders' equity | \$ 1,224,318 | \$ 1,209,883 |

See notes to condensed consolidated financial
 statements.

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

| | Three Months Ended March 31, | |
|--|------------------------------|---------------|
| | 2011 | 2010 |
| Net sales | \$ 123,981 | \$ 130,718 |
| Costs of goods sold | 76,804 | 79,300 |
| Gross profit | 47,177 | 51,418 |
| Operating expenses: | | |
| Selling and service | 14,305 | 14,312 |
| Research and development | 3,885 | 3,722 |
| General and administrative | 6,117 | 5,159 |
| Amortization of intangibles | 11,727 | 12,761 |
| Total operating expenses | 36,034 | 35,954 |
| Income from operations | 11,143 | 15,464 |
| Other (expense) income: | | |
| Interest expense | (6,001) | (8,492) |
| Investment income | 36 | 74 |
| Write-off of deferred financing costs related to debt extinguishment | - | (4,180) |
| Other, net | (241) | (316) |
| Total other expense, net | (6,206) | (12,914) |
| Income before provision for income taxes | 4,937 | 2,550 |
| Provision for income taxes | 93 | 82 |
| Net income | 4,844 | 2,468 |
| Preferential distribution to: | | |
| Series A preferred stockholders | - | (2,042) |
| Class B common stockholders | - | (12,133) |
| Beneficial conversion | - | (140,690) |
| Net income (loss) attributable to common stockholders (formerly Class A common stockholders) | \$ 4,844 | \$ (152,397) |
| Net income (loss) per common share - basic: | | |
| Common stock (formerly Class A common stock) | \$ 0.07 | \$ (4.26) |
| Class B common stock | n/a | \$ 505 |
| Net income (loss) per common share - diluted: | | |
| Common stock (formerly Class A common stock) | \$ 0.07 | \$ (4.26) |

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| | | |
|---|------------|------------|
| Class B common stock | n/a | \$ 505 |
| Weighted average common shares outstanding - basic: | | |
| Common stock (formerly Class A common stock) | 67,107,560 | 35,748,290 |
| Class B common stock | n/a | 24,018 |
| Weighted average common shares outstanding - diluted: | | |
| Common stock (formerly Class A common stock) | 67,344,349 | 35,748,290 |
| Class B common stock | n/a | 24,018 |

See notes to condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|------------------------------|------------|
| | 2011 | 2010 |
| Operating activities | | |
| Net income | \$ 4,844 | \$ 2,468 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,936 | 1,891 |
| Amortization | 11,727 | 12,761 |
| Write-off of deferred financing costs related to debt extinguishment | – | 4,180 |
| Amortization of deferred financing costs | 502 | 739 |
| Provision for losses on accounts receivable | 29 | (27) |
| Loss on disposal of property and equipment | 3 | – |
| Share-based compensation | 2,000 | 1,246 |
| Net changes in operating assets and liabilities: | | |
| Accounts receivable | 715 | 1,475 |
| Inventories | (16,650) | 16,611 |
| Other assets | 283 | 841 |
| Accounts payable | 10,403 | (5,900) |
| Accrued wages and employee benefits | (303) | (1,222) |
| Other accrued liabilities | (2,818) | (16,627) |
| Net cash provided by operating activities | 12,671 | 18,436 |
| Investing activities | | |
| Proceeds from sale of property and equipment | 3 | – |
| Expenditures for property and equipment | (1,569) | (1,564) |
| Net cash used in investing activities | (1,566) | (1,564) |
| Financing activities | | |
| Proceeds from issuance of common stock | – | 248,309 |
| Payment of long-term debt | – | (360,117) |
| Proceeds from exercise of stock options | 309 | – |
| Net cash provided by (used in) financing activities | 309 | (111,808) |
| Net increase (decrease) in cash and cash equivalents | 11,414 | (94,936) |
| Cash and cash equivalents at beginning of period | 78,583 | 161,307 |
| Cash and cash equivalents at end of period | \$ 89,997 | \$ 66,371 |

See notes to condensed consolidated financial statements

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Generac Holdings Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Description of Business

Generac Holdings Inc. (the Company) owns all of the common stock of Generac Acquisition Corp., which in turn, owns all of the common stock of Generac Power Systems, Inc. (the Subsidiary). The Company designs, manufactures, and markets a complete line of backup power generation products for residential, light-commercial, and industrial markets.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany amounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of March 31, 2011, the condensed consolidated statements of cash flows for the three months ended March 31, 2011 and 2010, and the condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments, consisting of only normal recurring adjustments necessary for the fair presentation of the financial position, results of operation and cash flows, have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

Expenses are charged to operations in the year incurred. However, for interim reporting purposes certain expenses are charged to operations based on a proportionate share of annual amounts rather than as they are actually incurred.

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

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (OCI) includes unrealized losses on certain cash flow hedges and the pension liability. The components of OCI at March 31, 2011 and December 31, 2010 were (dollars in thousands):

| | March 31, 2011 | December 31, 2010 |
|---------------------------------------|-------------------|----------------------|
| Pension liability | \$ (5,607) | \$ (5,607) |
| Unrealized losses on cash flow hedges | (3,590) | (4,145) |

| | | | | | | |
|--------------------------------------|----|--------|---|----|--------|---|
| Accumulated other comprehensive loss | \$ | (9,197 |) | \$ | (9,752 |) |
|--------------------------------------|----|--------|---|----|--------|---|

2. Derivative Instruments and Hedging Activities

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

Commodities

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

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The Company primarily utilizes commodity contracts with maturities of less than 12 months. These are intended to offset the effect of price fluctuations on actual inventory purchases. There were three outstanding commodity contracts in place to hedge the Company's projected commodity purchases at March 31, 2011. There was one outstanding commodity contract in place to hedge the Company's projected commodity purchases at December 31, 2010. In November 2010, the Company entered into a commodity forward contract to purchase \$2,296,000 of copper. The swap is effective from January 1, 2011, and terminates on April 30, 2011. In February 2011, the Company entered into a commodity forward contract to purchase a notional amount of \$2,378,000 of copper. The contract is effective from March 1, 2011, and terminates on December 31, 2011. In March 2011, the Company entered into commodity forward contracts to purchase a notional amount of \$2,100,000 of copper. The contract is effective from April 1, 2011, and terminates on December 31, 2011. Total losses recognized in the consolidated statements of operations on commodity contracts were losses of \$1,000 and \$15,000 for the three months ended March 31, 2011 and March 31, 2010, respectively.

Foreign Currencies

The Company is exposed to foreign currency exchange risk as a result of transactions in other currencies. The Company periodically utilizes foreign currency forward purchase and sales contracts to manage the volatility associated with foreign currency purchases in the normal course of business. Contracts typically have maturities of one year or less.

There were no foreign currency hedge contracts outstanding during the three month period ending March 31, 2011. The Company had one foreign currency hedge contract in place at March 31, 2010. The primary objective of that transaction was to mitigate the impact of potential currency fluctuations of the Euro on our financial results. The impact on operations for the three months ended March 31, 2010 was not material.

Interest Rates

In 2010, the Company entered into two new interest rate swap agreements. The first was entered into on January 21, 2010. The effective date of this swap is July 1, 2010 with a notional amount of \$200,000,000, a fixed LIBOR rate of 1.73% and an expiration date of July 1, 2012. The second was entered into on June 29, 2010. The effective date of that swap is October 1, 2010 with a notional amount of \$100,000,000, a fixed LIBOR rate of 1.025% and an expiration date of October 1, 2012. We maintain the swaps as highly effective in accordance with ASC 815 (formerly SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities) and, therefore, any changes in the fair value of the swap would be recorded in accumulated other comprehensive income (loss).

The following table presents, in thousands, the fair value of the Company's derivatives:

| | March 31, 2011 | December 31, 2010 |
|--|-------------------|----------------------|
| Derivatives designated as hedging instruments: | | |
| Interest rate swaps | \$ (3,590) | \$ (4,145) |
| | (3,590) | (4,145) |
| Derivatives not designated as hedging instruments: | | |
| Commodity contracts | 185 | 627 |
| Total derivatives liability | \$ (3,405) | \$ (3,518) |

As of March 31, 2011 and December 31, 2010, all derivatives that are not designated as hedging instruments are included in other assets in the condensed consolidated balance sheet. As of March 31, 2011 and December 31, 2010, all derivatives designated as hedging instruments are included in other long-term liabilities in the condensed consolidated balance sheet.

The fair value of the derivative contracts considers the Company's credit risk as of March 31, 2011 and December 31, 2010, respectively. Excluding the impact of credit risk, the fair value of the derivatives at March 31, 2011 and December 31, 2010 was a \$3,514,000 and a \$3,642,000 net liability, respectively, and this represents the amount the Company would need to pay to exit the agreements on those dates.

The following presents the impact of interest rate swaps, commodity contracts and foreign currency contracts on the condensed consolidated statement of operations for the three months ended March 31, 2011 and 2010 (dollars in thousands):

| | Amount of gain (loss) recognized in AOCI for the three months ended March 31, | | Location of gain (loss) reclassified from AOCI into net income (loss) | Amount of loss reclassified from AOCI into net income (loss) for the three months ended March 31, | | Amount of gain (loss) recognized in net income (loss) on hedges (ineffective portion) for the three months ended March 31, | |
|--|---|------------|---|---|------|--|-------|
| | 2011 | 2010 | | 2011 | 2010 | 2011 | 2010 |
| Derivatives designated as hedging instruments | | | | | | | |
| Interest rate swaps | \$ 555 | \$ (1,148) | Interest expense | \$ — | \$ — | \$ — | \$ — |
| Derivatives not designated as hedging instruments | | | | | | | |
| Commodity and foreign currency contracts | — | — | Cost of goods sold | — | — | (1) | (15) |

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3. Fair Value Measurements

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

Assets and liabilities measured at fair value are based on the market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued liabilities), excluding long-term debt, approximates the fair value of these instruments based upon their short-term nature. The fair value of long-term debt was approximately \$653,900,000 (level 2) at March 31, 2011, as calculated based on current quotations.

Assets and (liabilities) measured at fair value on a recurring basis are as follows (dollars in thousands):

| | Total March 31, 2011 | Fair Value Measurement Using Quoted Prices in Active Markets for Identical Contracts (Level 1) | Significant Other Observable Inputs (Level 2) |
|--|-------------------------|---|---|
| Interest rate swaps | \$ (3,590) | \$ – | \$ (3,590) |
| Commodity and foreign currency contracts | \$ 185 | \$ – | \$ 185 |

| | Total December 31, 2010 | Fair Value Measurement Using Quoted Prices in Active Markets for Identical Contracts (Level 1) | Significant Other Observable Inputs (Level 2) |
|--|-------------------------------|---|---|
| Interest rate swaps | \$ (4,145) | \$ – | \$ (4,145) |
| Commodity and foreign currency contracts | \$ 627 | \$ – | \$ 627 |

The valuation techniques used to measure the fair value of derivative contracts classified as level 2, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using

significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above takes into account the Company's credit risk in accordance with ASC 820-10.

4. Segment Reporting

The Company operates in and reports as a single operating segment, which is the manufacture and sale of power products. Net sales are generated through the sale of generators and service parts to distributors and retailers. The Company manages and evaluates its operations as one segment primarily due to similarities in the nature of the products, production processes and methods of distribution. All of the Company's identifiable assets are located in the United States. The Company's sales outside North America represent approximately 1% of net sales.

The Company's product offerings consist primarily of power products with a range of power output. Residential power products and industrial/commercial power products are each a similar class of products based on similar power output and customer usage. The breakout of net sales between residential, industrial/commercial, and other products is as follows (dollars in thousands):

| | Three Months Ended March 31, | |
|--------------------------------------|------------------------------|------------|
| | 2011 | 2010 |
| Residential power products | \$ 69,186 | \$ 83,998 |
| Industrial/Commercial power products | 44,310 | 38,318 |
| Other | 10,485 | 8,402 |
| Total | \$ 123,981 | \$ 130,718 |

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5. Balance Sheet Details

Inventories consist of the following (dollars in thousands):

| | March 31, 2011 | December 31, 2010 |
|--------------------------------------|-------------------|----------------------|
| Raw material | \$ 76,091 | \$ 66,936 |
| Work-in-process | 819 | 315 |
| Finished goods | 71,068 | 63,945 |
| Reserves for excess and obsolescence | (4,191) | (4,059) |
| | \$ 143,787 | \$ 127,137 |

Property and equipment consists of the following (dollars in thousands):

| | March 31, 2011 | December 31, 2010 |
|-------------------------------|-------------------|----------------------|
| Land and improvements | \$ 3,950 | \$ 3,950 |
| Buildings and improvements | 49,116 | 48,986 |
| Leasehold improvements | 4 | — |
| Machinery and equipment | 33,518 | 32,672 |
| Dies and tools | 11,711 | 11,301 |
| Vehicles | 810 | 827 |
| Office equipment | 7,012 | 6,836 |
| Gross property and equipment | 106,121 | 104,572 |
| Less accumulated depreciation | (31,207) | (29,285) |
| Property and equipment, net | \$ 74,914 | \$ 75,287 |

Other accrued liabilities consist of the following (dollars in thousands):

| | March 31, 2011 | December 31, 2010 |
|---------------------------------|-------------------|----------------------|
| Accrued commissions | \$ 4,458 | \$ 4,578 |
| Accrued interest | 4,773 | 5,018 |
| Accrued warranties – short term | 16,927 | 17,155 |
| Other accrued liabilities | 9,791 | 11,292 |
| | \$ 35,949 | \$ 38,043 |

6. Product Warranty Obligations

The Company records a liability for product warranty obligations at the time of sale to a customer based upon historical warranty experience. The Company also records a liability for specific warranty matters when they become known and are reasonably estimable. The Company's product warranty obligations are included in other accrued

liabilities and other long-term liabilities in the balance sheets.

Changes in product warranty obligations are as follows (dollars in thousands):

| | For the three months ended March 31, | |
|--------------------------------|--------------------------------------|-----------|
| | 2011 | 2010 |
| Balance at beginning of period | \$ 22,478 | \$ 20,729 |
| Payments | (3,658) | (3,326) |
| Charged to operations | 3,430 | 3,371 |
| Balance at end of period | \$ 22,250 | \$ 20,774 |

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The product warranty obligations are included in the balance sheets as follows (dollars in thousands):

| | March 31, 2011 | December 31, 2010 |
|-----------------------------|-------------------|----------------------|
| Other accrued liabilities | \$ 16,927 | \$ 17,155 |
| Other long-term liabilities | 5,323 | 5,323 |
| Balance at end of period | \$ 22,250 | \$ 22,478 |

7. Credit Agreements

Long-term debt consists of the following (dollars in thousands):

| | March 31, 2011 | December 31, 2010 |
|---------------------------------|-------------------|----------------------|
| First lien term loan | \$ 664,372 | \$ 664,372 |
| | 664,372 | 664,372 |
| Less treasury debt – first lien | 7,143 | 7,143 |
| Less current portion | 24,731 | - |
| | \$ 632,498 | \$ 657,229 |

At March 31, 2011 and December 31, 2010, the Company had a credit agreement which provided for borrowings under a revolving credit facility (the Revolving Credit Facility) and a first lien term loan (collectively, the Credit Agreement). The Credit Agreement of the Company is secured by the associated collateral agreements which pledge virtually all assets of the Subsidiary. The Credit Agreement requires the Company, among other things, to meet certain financial and nonfinancial covenants and maintain financial ratios in such amounts and for such periods as set forth therein. The Company is required to maintain a leverage ratio (net debt (debt less cash and cash equivalents) divided by EBITDA, as defined in the Credit Agreement) of 5.75 as of March 31, 2011. The leverage ratio decreases quarterly, and for 2011, the Company has been or will be required to maintain a leverage ratio of 5.75, 5.50, 5.25, and 4.75 for the first, second, third, and fourth quarters, respectively. The Company was in compliance with all requirements as of March 31, 2011 and December 31, 2010.

The Credit Agreement restricts the circumstances in which distributions and dividends can be paid by its Subsidiary. Payments can be made to the Company for certain expenses, and dividends can be used to repurchase equity interests, subject to an annual limitation. Additionally, the Credit Agreement restricts the aggregate amount of dividends and distributions that can be paid and requires the maintenance of certain leverage ratios in order to pay certain dividends or distributions.

A voluntary debt repayment of \$24,731,000 was made in April 2011, and as such, is classified as current debt as of March 31, 2011.

8. Earnings Per Share

The Company's capitalization prior to its' initial public offering (completed on February 17, 2010) consisted of Series A Preferred Stock, Class B Common Stock and Class A Common Stock. The Series A Preferred stock and Class B

Common stock were redeemable in a deemed liquidation in the event of a change of control. The redemption features were considered to be outside the control of the Company and therefore, all shares of Series A Preferred stock and Class B Common stock were recorded outside of permanent equity in accordance with guidance originally issued under EITF Topic D-98, Classification and Measurement of Redeemable Securities (codified under Accounting Standards Codification 480, Distinguishing Liabilities from Equity). Upon closing of the IPO, all shares of convertible Class B Common stock and Series A preferred stock were automatically converted into 88,476,530 and 19,511,018 Class A Common shares, respectively. The 88,476,530 shares of Class A Common stock were subject to a 3.294 for 1 reverse stock split, resulting in 26,859,906 Class A Common shares relative to the Class B Common stock conversion, and the Class A Common stock was re-designated as "Common Stock". Subsequent to the IPO, the Company has one class of common stock. The share and per share data used in basic and diluted earnings per share has been retrospectively restated to reflect only the 3.294 for 1 reverse stock split immediately prior to the IPO.

The Class B Common stock was considered a participating stock security requiring use of the "two-class" method for the computation of basic net income (loss) per share in accordance with provision of ASC 260-10 Earnings per share. Losses were not allocated to the Class B Common stock in the computation of basic earnings per share as the Class B Common stock was not obligated to share in losses.

Basic earnings per share excludes the effect of common stock equivalents and is computed using the "two-class" computation method, which subtracts earnings attributable to the Class B preference from total earnings. In addition, earnings attributable to the Series A Preferred preference and the Class B and Series A Preferred beneficial conversion are subtracted from total earnings. Any remaining loss is attributed to the Class A Common shares.

For the three month period ended March 31, 2010, diluted earnings per share are identical to basic earnings per share because the impact of common stock equivalents on earnings per share is anti-dilutive. Had the impact not been anti-dilutive, the effect of stock compensation awards on weighted average diluted shares outstanding would have been 55,381 shares.

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| (Dollars in Thousands, Except Share and Per Share Data) | Three months ended March 31, | |
|---|------------------------------|------------|
| | 2011 | 2010 |
| Net income | \$ 4,844 | \$ 2,468 |
| Less: accretion of Series A Preferred stock | - | (2,042) |
| Less: accretion of Class B Common stock | - | (12,133) |
| Less: beneficial conversion | - | (140,690) |
| Net income (loss) attributable to Common stock (formerly Class A Common stock) | 4,844 | (152,397) |
| Income attributable to Class B Common stock | - | 12,133 |
| Net income (loss) per common share - basic: | | |
| Common stock (formerly Class A Common stock) | \$ 0.07 | \$ (4.26) |
| Class B Common stock | n/a | \$ 505 |
| Net income (loss) per common share - diluted: | | |
| Common stock (formerly Class A Common stock) | \$ 0.07 | \$ (4.26) |
| Class B Common stock | n/a | \$ 505 |
| Weighted average number of shares outstanding – Common Stock (formerly Class A Common stock): | | |
| Basic | 67,107,560 | 35,748,290 |
| Dilutive effect of stock compensation awards | 236,789 | - |
| Diluted | 67,344,349 | 35,748,290 |
| Weighted average number of shares outstanding – Class B Common stock – basic and diluted: | | |
| | n/a | 24,018 |

The Series A Preferred and Class B Common stock were only convertible to Class A Common stock immediately prior to an initial public offering. The number of shares of Class A Common stock that were issued upon conversion of the Series A Preferred and Class B Common stock was dependent upon the initial public offering price of the Class A Common stock on the date of conversion of February 10, 2010 as well as the unpaid priority return as of that date.

9. Income Taxes

The Company is currently in a three year cumulative net loss position, due primarily to a goodwill and tradename impairment write-off in 2008, and therefore has not considered expected future taxable income in analyzing the realizability of the Company's deferred tax assets as of March 31, 2011. As a result of this analysis, we have recorded a full valuation allowance against these net deferred tax assets.

10. Benefit Plans

Additional information related to the Pension Plans is as follows (dollars in thousands):

| | Three months ended March 31, | |
|---|------------------------------|--------|
| | 2011 | 2010 |
| Components of net periodic pension expense: | | |
| Service cost | \$ – | \$ – |
| Interest cost | 592 | 590 |
| Expected return on plan assets | (586) | (501) |
| Amortization of net loss | 68 | 62 |
| Net periodic pension expense | \$ 74 | \$ 151 |

12. Commitments and Contingencies

The Company has an arrangement with a finance company to provide floor plan financing for selected dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits. The Company has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at March 31, 2011 and December 31, 2010 was approximately \$10,513,000 and \$9,735,000, respectively.

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

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13. Subsequent Events

The Company entered into two new interest rate swap agreements on April 1, 2011. The effective date of the first swap is July 1, 2012 with a notional amount of \$200,000,000, a fixed LIBOR rate of 1.905% and an expiration date of July 1, 2013. The effective date of the second swap is October 1, 2012 with a notional amount of \$100,000,000, a fixed LIBOR rate of 2.22% and an expiration date of October 1, 2013.

In April 2011, we used \$24,731,000 of cash and cash equivalents on hand to pay down a portion of our first lien term loan. As a result of this debt repayment, the outstanding balance on the first lien credit facility has been reduced to \$632,498,000 as of April 28, 2011.

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

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," "project," "plan," "intend," "believe," "confident," "may," "should," "can have," "likely," "future" and other words having 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 of major power outages;
- availability of quality raw materials and key components used in producing our products;
- 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;
 - our ability to adjust to operating as a public company;
 - loss of our key management and employees;
 - increase in 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 these forward-looking statements. A detailed discussion of these and other factors that may affect future results is contained in Generac's filings with the Securities and Exchange Commission, including in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Any forward-looking statement made by us in this report speaks only as of the date on which we make it. 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.

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Overview

We are a leading designer and manufacturer of a wide range of backup power generation products for the residential, commercial and industrial markets. We are the only significant market participant focused predominantly on these products, and we have one of the leading market positions in the standby generator market in the United States and Canada. We design, engineer and manufacture generators with an output of between 800W and 9mW of power. We design, manufacture, source and modify engines, alternators, automatic transfer switches and other components necessary for our products. Our generators are fueled by natural gas, liquid propane, gasoline, diesel and Bi-Fuel™. Our products are available through a broad network of independent dealers, retailers and wholesalers.

Business drivers and measures

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

Industry trends

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

Increasing penetration opportunity. Although there have been recent increases in product costs for installed standby generators in the residential and light-commercial markets (driven in the last two years by raw material costs), these costs have declined overall over the last decade, and many potential customers are not aware of the costs and benefits of backup power solutions. We estimate that penetration rates for residential products are approximately 2% 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 2007 American Housing Survey for the United States, and penetration rates of many light-commercial outlets such as restaurants, drug stores, and gas stations are significantly lower than penetration of hospitals and industrial locations. We believe that 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.

Impact of residential investment cycle. The market for residential generators is affected by the residential investment cycle and overall consumer sentiment. When homeowners are confident of their household income or net worth, they are more likely to invest in their home. These trends can have a material impact on demand for residential generators.

Effect of large scale power disruptions. Power disruptions are an important driver of consumer awareness and have historically influenced demand for generators. Disruptions in the aging U.S. power grid and summer and winter storm activity increase product awareness and may drive consumers to accelerate their purchase of a standby or portable generator during the immediate and subsequent period, which we believe may last for six to twelve months for standby generators. While there are power outages every year across all regions of the country, major outage activity is unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period.

Impact of business capital investment cycle. The market for commercial and industrial generators is affected by the capital investment cycle and overall non-residential construction and durable goods spending, as businesses either add new locations or make investments to upgrade existing locations. These trends can have a material impact on demand for industrial and commercial generators. However, the capital investment cycle may differ for the various industrial and commercial end markets (industrial, telecommunications, distribution, retail, health care facilities and municipal infrastructure, among others). The market for generators is also affected by general economic conditions, credit

availability and trends in durable goods spending by consumers and businesses.

Operational factors

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

New product start-up costs. When we launch new products, we generally experience an increase in start-up costs, including engineering expenses, expediting costs, testing expenses and marketing expenses, resulting in lower margins after the initial launch of a new product. Margins on new product introductions generally increase over the life of the product as these start-up costs decline and we focus our engineering efforts on product cost reduction.

Effect of commodity, currency and component price fluctuations. Industry-wide price fluctuations of key commodities, such as steel, copper and aluminum and other components we use in our products, together with foreign currency fluctuations, can have a material impact on our results of operations. We have historically attempted to mitigate the impact of rising commodity, currency and component prices through improved product design, price increases and select hedging transactions. Our results are also influenced by changes in fuel prices in the form of freight rates, which in some cases are borne by our customers and in other cases are paid by us.

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Other factors

Other factors that affect our results of operations include the following:

Factors influencing interest expense. We anticipate that interest expense will decrease in 2011 versus 2010 because, during 2010, we used the net proceeds from our initial public offering and available cash on hand to repay a substantial portion of outstanding indebtedness. In addition, interest rate swap agreements, which are described further under the Liquidity and Financial Condition section, will mitigate the risk of interest rate volatility on a portion of our debt.

Factors influencing provision for income taxes. We have \$1.3 billion of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2010 that we expect to generate cash tax savings of \$510 million through 2021, assuming continued profitability and a 38.5% tax rate. The amortization of these assets for tax purposes is expected to be \$122 million annually through 2020 and \$102 million in 2021, which generates annual cash tax savings of \$47 million through 2020 and \$39 million in 2021, assuming profitability and a 38.5% tax rate. Additionally, we have federal net operating loss, or NOL, carry-forwards of \$166.1 million as of December 31, 2010, which we expect to generate an additional \$58 million of federal cash tax savings at a 35% rate when and if utilized. Based on current business plans, we believe that our cash tax obligations through 2021 will be significantly reduced by these tax attributes. However, any subsequent accumulations of common stock ownership leading to a change of control under Section 382 of the U.S. Internal Revenue Code of 1986, including through sales of stock by large stockholders, all of which are outside of our control, could limit and defer our ability to utilize our net operating loss carry-forwards to offset future federal income tax liabilities.

Seasonality. Although there is demand for our products throughout the year, in each of the past three years approximately 20% to 24% of our net sales occurred in the first quarter, 22% to 25% in the second quarter, 25% to 29% in the third quarter and 26% to 30% in the fourth quarter, with different seasonality depending on the timing of major power outage activity in each year. We maintain a flexible production schedule in order to respond to outage-driven peak demand, but typically increase production levels in the second and third quarters of each year.

Results of operations

Quarter ended March 31, 2011 compared to quarter ended March 31, 2010

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

| (dollars in thousands) | Three Months Ended March 31, | |
|-----------------------------|------------------------------|------------|
| | 2011 | 2010 |
| Net Sales | \$ 123,981 | \$ 130,718 |
| Cost of Goods Sold | 76,804 | 79,300 |
| Gross profit | 47,177 | 51,418 |
| Operating Expenses: | | |
| Selling and service | 14,305 | 14,312 |
| Research and development | 3,885 | 3,722 |
| General and administrative | 6,117 | 5,159 |
| Amortization of intangibles | 11,727 | 12,761 |
| Total operating expenses | 36,034 | 35,954 |
| Income from operations | 11,143 | 15,464 |

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| | | |
|--|------------|------------|
| Total other expense, net | (6,206) | (12,914) |
| Income before provision for income taxes | 4,937 | 2,550 |
| Provision for income taxes | 93 | 82 |
| Net income | \$ 4,844 | \$ 2,468 |
| Residential products | \$ 69,186 | \$ 83,998 |
| Industrial & Commercial products | 44,310 | 38,318 |
| Other | 10,485 | 8,402 |
| Net sales | \$ 123,981 | \$ 130,718 |

Net sales. Net sales decreased \$6.7 million, or 5.2%, to \$124.0 million for the three months ended March 31, 2011 from \$130.7 million for the three months ended March 31, 2010. This decrease was driven by a \$14.8 million, or 17.6%, decrease in sales of residential products primarily due to a decline in demand for lower kilowatt portable generator products as a result of less severe power outages versus prior year. In addition, to a lesser extent, residential product sales declined versus prior year due to higher levels of inventory in the channel coming into the year versus prior year. Partially offsetting this residential product sales decrease was a \$6.0 million, or 15.6%, increase in industrial and commercial product sales to \$44.3 million in the current year from \$38.3 million in the prior year driven by increased capital spending by our national account customers and strong demand for our larger industrial systems.

Costs of goods sold. Costs of goods sold decreased \$2.5 million, or 3.1%, to \$76.8 million for the three months ended March 31, 2011 from \$79.3 million for the three months ended March 31, 2010. Raw material costs decreased \$0.7 million year-over-year due to a decrease in sales volume, partially offset by higher commodity costs incurred during the current year quarter, primarily steel, copper and aluminum. Direct labor, overhead, and inbound freight costs also decreased \$1.8 million, year over year, resulting from the decrease in sales volume.

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Gross profit. Gross profit decreased \$4.2 million, or 8.2%, to \$47.2 million for the three months ended March 31, 2011 from \$51.4 million for the three months ended March 31, 2010, primarily due to the overall decrease in sales volume, coupled with a continued increase in commodity costs during the three months ended March 31, 2011 versus the prior year quarter.

Operating expenses. Operating expenses were flat on a year-over-basis at \$36.0 million for the three months ended March 31, 2011 and 2010. General and administrative expenses increased \$1.0 million year-over-year mainly due to \$0.8 million of higher share based compensation expense recorded during the three months ended March 31, 2011 for the time vesting of stock awards. Amortization of intangibles decreased \$1.0 million due to certain definite lived intangible assets that became fully amortized at the end of 2010.

Other expense. Other expense decreased \$6.7 million, or 51.9%, to \$6.2 million for the three months ended March 31, 2011 from \$12.9 million for the three months ended March 31, 2010. Interest expense decreased \$2.5 million versus prior year due to the repayment of debt in 2010. The repayment of debt following our IPO in the first quarter of 2010 resulted in an acceleration of deferred financing cost amortization of \$4.2 million that did not repeat in the first quarter of 2011.

Provision for income taxes. Income tax expense was \$0.1 million for both the three months ended March 31, 2011 and 2010. Income tax expense primarily relates to certain state income taxes based on profitability measures other than net income.

Net income. As a result of the factors identified above, we generated net income of \$4.8 million for the three months ended March 31, 2011 compared to \$2.5 million for the three months ended March 31, 2010.

Adjusted EBITDA. Adjusted EBITDA, as defined in the accompanying reconciliation schedules, decreased \$4.3 million, or 13.7%, to \$27.5 million for the three months ended March 31, 2011 from \$31.8 million for the three months ended March 31, 2010 as a result of the previously described sales and margin declines.

Adjusted Net income. Adjusted net income, as defined in the accompanying reconciliation schedules, of \$17.1 million for the three months ended March 31, 2011 decreased 15.0% from \$20.2 million for the three months ended March 31, 2010.

See “Non-GAAP measures” for a discussion of how we calculate these non-GAAP measures and limitations on their usefulness.

Liquidity and financial condition

Our primary cash requirements include payment for our raw material and component supplies, salaries & benefits, operating expenses, interest and principal payments on our debt, and capital expenditures. We finance our operations primarily through cash flow from operations and, if necessary, borrowings under our revolving credit facility. In November 2006, Generac Power Systems entered into a seven-year \$950.0 million first lien term loan, a seven-and-a-half year \$430.0 million second lien term loan, and a six-year \$150.0 million revolving credit facility. On February 17, 2010, we used approximately \$221.6 million of the net proceeds of our initial public offering to pay down our second lien term loan in full and to repay a portion of our first lien term loan. In March 2010 and December 2010, we used a substantial portion of our cash and cash equivalents on hand to repay an additional \$138.5 million and \$74.2 million, respectively, of our first lien term loan. As a result of these pay downs, the outstanding balance on the first lien credit facility has been reduced to \$657.2 million as of March 31, 2011, and our second lien credit facility has been repaid in full and terminated.

At March 31, 2011, we had cash and cash equivalents of \$90.0 million and \$145.5 million of availability under our revolving credit facility, net of outstanding letters of credit.

Subsequent to quarter end, in April 2011, we used \$24.7 million of cash and cash equivalents on hand to pay down a portion of our first lien term loan.

We have two interest rate swap agreements outstanding as of March 31, 2011. The first was entered into on January 21, 2010. The effective date of the swap is July 1, 2010 with a notional amount of \$200,000,000, a fixed LIBOR rate of 1.73% and an expiration date of July 1, 2012. The second was entered into on June 29, 2010. The effective date of the swap is October 1, 2010 with a notional amount of \$100,000,000, a fixed LIBOR rate of 1.025% and an expiration date of October 1, 2012. Subsequent to quarter end, on April 1, 2011, we entered into two new interest rate swap agreements. The effective date of the first swap is July 1, 2012 with a notional amount of \$200,000,000, a fixed LIBOR rate of 1.905% and an expiration date of July 1, 2013. The effective date of the second swap is October 1, 2012 with a notional amount of \$100,000,000, a fixed LIBOR rate of 2.22% and an expiration date of October 1, 2013. We expect to maintain the swaps as highly effective in accordance with ASC 815 (formerly SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities) and, therefore, any changes in the fair value of the swap would be recorded in accumulated other comprehensive income (loss).

Long-term liquidity

We believe that our cash flow from operations, our availability under our revolving credit facility, combined with our low capital expenditure requirements and favorable tax attributes, will provide us with sufficient capital to continue to grow our business in the next twelve months and beyond. However, even with our reduced leverage, we will use a significant portion of our cash flow to pay interest on our outstanding debt, limiting the amount available for working capital, capital expenditures and other general corporate purposes. As we continue to expand our business, we may in the future require additional capital to fund working capital, capital expenditures, or acquisitions.

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Three months ended March 31, 2011 compared to three months ended March 31, 2010

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

| (Dollars in thousands) | Three months ended | | | | | |
|---|--------------------|---------------|-------------|----------|---|--|
| | 2011 | 2010 | \$ Change | % Change | | |
| Net cash provided by operating activities | \$ 12,671 | \$ 18,436 | \$ (5,765) | 31 | % | |
| Net cash used in investing activities | \$ (1,566) | \$ (1,564) | \$ (2) | 0 | % | |
| Net cash provided by (used in) financing activities | \$ 309 | \$ (111,808) | \$ 112,117 | 100 | % | |

Net cash provided by operating activities was \$12.7 million for the three months ended March 31, 2011 compared to \$18.4 million for the three months ended March 31, 2010. This year-over-year reduction in net cash provided by operating activities was the result of reduced profitability and increased working capital needs partially offset by reduced cash interest paid during the current year quarter.

Net cash used in investing activities for the three months ended March 31, 2011 and 2010 was \$1.6 million, the majority of which related to the purchase of property and equipment.

Net cash provided by financing activities was \$0.3 million for the three months ended March 31, 2011, representing proceeds from the exercise of stock options. Net cash used in financing activities was \$111.8 million for the three months ended March 31, 2010. During the three months ended March 31, 2010, we received approximately \$248.3 million of net proceeds from our IPO, which was offset by a \$360.1 million subsequent repayment of our term loans.

Contractual Obligations

There have been no material changes to our contractual obligations since the March 7, 2011 filing of our 2010 Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Off-balance sheet arrangements

There have been no material changes with regards to off-balance sheet arrangements since the March 7, 2011 filing of our 2010 Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Critical accounting policies

There have been no material changes in our critical accounting policies since the March 7, 2011 filing of our 2010 Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

As discussed in our Annual Report on Form 10-K, in preparing the financial statements in accordance with accounting principles generally accepted in the U.S., we are required to make estimates and assumptions that have an impact on the asset, liability, revenue and expense amounts reported. These estimates can also affect our supplemental information disclosures, including information about contingencies, risk and financial condition. We believe, given current facts and circumstances, that our estimates and assumptions are reasonable, adhere to accounting principles generally accepted in the U.S., and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates and estimates may vary as new facts and circumstances arise. We

make routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property, plant and equipment, and prepaid expenses. We believe that our most critical accounting estimates and assumptions are in the following areas: goodwill and other indefinite-lived intangible asset impairment assessment, defined benefit pension obligations, estimates of allowance for doubtful accounts, excess and obsolete inventory reserves, product warranty, other contingencies, derivative accounting, income taxes, and share based compensation.

Non-GAAP measures

Adjusted EBITDA

Adjusted EBITDA represents net income before interest expense, taxes, depreciation and amortization, as further adjusted for the other items reflected in the reconciliation table set forth below. This presentation is substantially consistent with the presentation used in our senior secured credit facilities (Covenant EBITDA), except that we do not give effect to certain additional adjustments that are permitted under those facilities which, if included, would increase the amount reflected in this table.

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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 senior secured credit facilities but also because it assists us in comparing our performance across reporting periods on a consistent basis because 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 2011 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 our company. Management believes that the disclosure of Adjusted EBITDA offers an additional financial metric that, when coupled with U.S. GAAP results and the reconciliation to U.S. GAAP results, provides a more complete understanding of our results of operations and the factors and trends affecting our business. We believe Adjusted EBITDA is useful to investors for the following reasons:

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

The adjustments included in the reconciliation table listed below are provided for under our senior secured credit facilities (except where noted in footnote (i) below) 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 impairment and other charges, transaction costs relating to the CCMP Transactions and to repurchases of our debt by affiliates of CCMP, non-cash gains and write-offs relating to the retirement of debt, severance costs and other restructuring-related business optimization expenses;
- we believe to be akin to, or associated with, interest expense, such as administrative agent fees, revolving credit facility commitment fees and letter of credit fees;

- are non-cash in nature, such as share-based compensation; or
- were eliminated following the consummation of our initial public offering, such as sponsor fees.

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

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

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

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- 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 impairment charges, while not involving cash expense, do have a negative impact on the value of our assets as reflected in our consolidated balance sheet prepared in accordance with U.S. GAAP;
 - the adjustments for business optimization expenses, which we believe are appropriate for the reasons set out in note (e) below, represent costs associated with severance and other items which are reflected in operating expenses and income (loss) from continuing operations in our condensed consolidated statements of operations 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 items that are included as adjustments in calculating Adjusted EBITDA (subject ultimately to review by our board of directors in the context of the board's review of our quarterly financial statements). While many of the adjustments (for example, transaction costs and credit facility fees and sponsor fees), involve mathematical application of items reflected in our financial statements, others (such as business optimization adjustments) involve a degree of judgment and discretion. While we believe that all of these adjustments are appropriate, and while the quarterly calculations are subject to review by our board of directors in the context of the board's review of our quarterly financial statements and certification by our chief financial officer in a compliance certificate provided to the lenders under our senior secured credit facilities, 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:

| (Dollars in thousands) | Three months ended March 31, | |
|--|------------------------------|----------|
| | 2011 | 2010 |
| Net income | \$ 4,844 | \$ 2,468 |
| Interest expense | 6,001 | 8,492 |
| Depreciation and amortization | 13,663 | 14,652 |
| Income taxes provision | 93 | 82 |
| Non-cash impairment and other charges (a) | 446 | 149 |
| Non-cash share based compensation expense (b) | 2,000 | 1,246 |
| Write-off of deferred financing costs related to debt extinguishment (c) | - | 4,180 |
| Transaction costs and credit facility fees (d) | 173 | 362 |
| Business optimization expenses (e) | 221 | 108 |
| Sponsor fees (f) | - | 56 |
| Letter of credit fees (g) | 2 | 2 |

| | | |
|-------------------------------------|-----------|-----------|
| Other state franchise taxes (h) | 64 | 61 |
| Holding company interest income (i) | (23) | (26) |
| Adjusted EBITDA | \$ 27,484 | \$ 31,832 |

(a) Represents the following non-cash charges:

- for the three months ended March 31, 2011, unrealized mark-to-market adjustments on copper forward contracts and a loss on disposal of assets;
- for the three months ended March 31, 2010, unrealized mark-to-market adjustments on copper and Euro forward contracts;

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

- The gain (loss) on disposals of assets described above result from the sale of assets that are no longer useful in our business and therefore represent losses that are not from our core operations;
- The adjustments for unrealized mark-to-market gains and losses on copper forward and Euro contracts represent non-cash items to reflect changes in the fair value of forward contracts that have not been settled or terminated. We believe that 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 operations and cash flows to capture the full effect of these contracts on our operating performance;

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

(c) Represents the write-off of a portion of deferred financing costs related to the accelerated repayment of debt after our initial public offering;

(d) Represents the following transaction costs and fees relating to our senior secured credit facilities:

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- administrative agent fees and revolving credit facility commitment fees under our senior secured credit facilities, 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 repurchases of debt under our first and second lien credit facilities by affiliates of CCMP, which CCMP's affiliates contributed to our company in exchange for the issuances of securities, which repurchases we do not expect to recur;

(e) represents severance costs incurred from restructuring-related activities. We do not believe the charges for restructuring-related activities in the three months ended March 31, 2011 reflect our ongoing operations. Although we have incurred severance costs in the past, it is difficult to predict the amounts of similar costs in the future, and we believe that adjusting for these costs aids in measuring the performance of our ongoing operations. We believe that these costs will tend to be immaterial to our results of operations in future periods.

(f) Represents management, consulting, monitoring, transaction and advisory fees and related expenses paid or accrued to affiliates of CCMP and affiliates of Unitas (related parties) under an advisory services and monitoring agreement. This agreement automatically terminated upon consummation of our initial public offering, and, accordingly, we believe that these expenses do not reflect the expenses of our ongoing operations.

(g) Represents fees on letters of credit outstanding under our senior secured credit facilities, 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.

(h) Represents franchise and business activity taxes paid at the state level. We believe that the inclusion of these taxes in calculating Adjusted EBITDA is similar to the inclusion of income taxes, as set forth in the table above.

(i) Represents interest earned on cash held at Generac Holdings Inc. We exclude these amounts because we do not include them in the calculation of "Covenant EBITDA" under and as defined in our senior secured credit facilities.

Adjusted Net Income

Adjusted Net Income is defined as net income before provision for income taxes adjusted for the following items: cash income tax expense, amortization of intangible assets, amortization of deferred financing costs related to the Company's debt, intangible asset impairment charges, and certain non-cash gains as reflected in the reconciliation table set forth below.

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

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

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;
- Other companies may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

| (Dollars in thousands) | Three months ended March 31, | |
|--|------------------------------|-----------|
| | 2011 | 2010 |
| Net income | \$ 4,844 | \$ 2,468 |
| Provision for income taxes | 93 | 82 |
| Income before provision for income taxes | 4,937 | 2,550 |
| Amortization of intangible assets | 11,727 | 12,761 |
| Amortization of deferred financing costs | 502 | 739 |
| Write-off of deferred financing costs related to debt extinguishment | - | 4,180 |
| Adjusted net income before provision for income taxes | 17,166 | 20,230 |
| Cash income tax expense | (24) | (65) |
| Adjusted net income | \$ 17,142 | \$ 20,165 |
| Adjusted net income per common share - diluted: | 0.25 | n/m |
| Weighted average common shares outstanding - diluted: | 67,344,349 | n/m |

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New Accounting Standards

There have been no material changes since the March 7, 2011 filing of our 2010 Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of changes in commodity, currency and interest rate related risks and hedging activities, see Note 2 – Derivative Instruments and Hedging Activities – to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q. In other respects, there has been no material change in market risk from the information provided in Item 7A. (Quantitative and Qualitative Disclosures About Market Risk) of our 2010 Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes during the three months ended March 31, 2011 in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings primarily involving product liability and employment matters and general commercial disputes arising in the ordinary course of our business. As of March 31, 2011, we believe that there is no litigation pending that would have a material effect on our results of operations or financial condition.

Item 1A. Risk Factors

There have been no material changes in our risk factors since the March 7, 2011 filing of our 2010 Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 6. Exhibits

Exhibits
Number

Description

| | |
|---------------|---|
| <u>31.1*</u> | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2*</u> | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1**</u> | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.2**</u> | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.</u> |

*
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Filed herewith.
Furnished herewith.

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SIGNATURES

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

Generac Holdings Inc.

By:

/s/ York A. Ragen

York A. Ragen
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

Dated: May 13, 2011

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