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 June 30, 2019

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)

Securities registered pursuant to Section 12(b) of the Act:

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

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 every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer ☑
Non-accelerated filer ☐
Emerging growth company ☐
Accelerated filer ☐
Smaller reporting company ☐

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

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

As of July 31, 2019, there were 62,372,967 shares of registrant's common stock outstanding.

GENERAC HOLDINGS INC.
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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 110,367	$ 224,482
Accounts receivable, less allowance for doubtful accounts	341,535	326,133
Inventories	570,327	544,750
Prepaid expenses and other assets	29,481	25,404
Total current assets	1,051,710	1,120,769
Property and equipment, net	300,795	278,929
Customer lists, net	58,935	61,194
Patents, net	79,690	29,970
Other intangible assets, net	12,622	3,043
Tradenames, net	150,527	152,283
Goodwill	817,392	764,655
Deferred income taxes	3,391	163

Operating lease and other assets	48,047	15,308
Total assets	$ 2,523,109	$ 2,426,314
Liabilities and stockholders' equity		
Current liabilities:		
Short-term borrowings	$ 57,031	$ 45,583
Accounts payable	259,696	328,091
Accrued wages and employee benefits	30,289	40,819
Other accrued liabilities	130,891	144,236
Current portion of long-term borrowings and finance lease obligations	2,456	1,977
Total current liabilities	480,363	560,706
Long-term borrowings and finance lease obligations	883,476	876,396
Deferred income taxes	85,192	71,300
Operating lease and other long-term liabilities	143,950	95,647
Total liabilities	1,592,981	1,604,049
Redeemable noncontrolling interests	59,117	61,004
Stockholders' equity:		
Common stock, par value $0.01, 500,000,000 shares authorized, 71,471,341 and 71,186,418 shares issued at June 30, 2019 and December 31, 2018, respectively	715	712
Additional paid-in capital	485,703	476,116
Treasury stock, at cost	(324,149)	(321,473)
Excess purchase price over predecessor basis	(202,116)	(202,116)
Retained earnings	939,618	831,123
Accumulated other comprehensive loss	(33,831)	(23,813)
Stockholders' equity attributable to Generac Holdings, Inc.	865,940	760,549
Noncontrolling interests	5,071	712
Total stockholders' equity	871,011	761,261
Total liabilities and stockholders' equity	$ 2,523,109	$ 2,426,314

See notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net sales	$ 541,916	$ 497,581	$ 1,012,269	$ 897,672
Costs of goods sold	346,078	319,108	654,256	577,272
Gross profit	195,838	178,473	358,013	320,400
Operating expenses:				
Selling and service	52,309	48,269	99,598	92,889
Research and development	17,694	12,616	31,303	24,469
General and administrative	27,658	26,639	52,420	50,114
Amortization of intangibles	7,251	5,482	12,593	11,114
Total operating expenses	104,912	93,006	195,914	178,586
Income from operations	90,926	85,467	162,099	141,814
Other (expense) income:				
Interest expense	(10,452)	(11,002)	(20,724)	(21,115)
Investment income	452	367	1,366	713
Loss on extinguishment of debt	–	(1,332)	–	(1,332)
Other, net	(393)	(887)	(1,454)	(2,281)
Total other expense, net	(10,393)	(12,854)	(20,812)	(24,015)
Income before provision for income taxes	80,533	72,613	141,287	117,799
Provision for income taxes	18,827	18,382	33,812	29,798
Net income	61,706	54,231	107,475	88,001
Net (loss) income attributable to noncontrolling interests	(252)	970	656	1,095
Net income attributable to Generac Holdings Inc.	$ 61,958	$ 53,261	$ 106,819	$ 86,906
Net income attributable to Generac Holdings Inc. per common share - basic:	$ 0.99	$ 0.83	$ 1.75	$ 1.25
Weighted average common shares outstanding - basic:	61,921,711	61,534,423	61,841,823	61,696,014

Net income attributable to Generac Holdings Inc. per common share - diluted:	$	0.98	$	0.82	$	1.74	$	1.24
Weighted average common shares outstanding - diluted:		62,405,863		62,054,447		62,349,030		62,259,712
Comprehensive income attributable to Generac Holdings Inc.	$	57,398	$	47,884	$	96,925	$	92,587

See notes to consolidated financial statements.

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

	Generac Holdings Inc.											
	Common Stock		Additional Paid-In	Treasury Stock		Excess Purchase Price Over Predecessor	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'	Noncontrolling	
	Shares	Amount	Capital	Shares	Amount	Basis	Deficit)	Income (Loss)	Equity	Interest	Total
Balance at April 1, 2019	71,395,561	$ 714	$ 481,391	(9,097,711)	$ (324,115)	$ (202,116)	$ 878,416	$ (29,870)	$ 804,420	$ 5,535	$ 809,955
Unrealized gain/loss on interest rate swaps, net of tax of ($2,478)	–	–	–	–	–	–	–	(7,053)	(7,053)	–	(7,053)
Foreign currency translation adjustment	–	–	–	–	–	–	–	3,092	3,092	(17)	3,075
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	75,780	1	(22)	–	–	–	–	–	(21)	–	(21)
Net share settlement of restricted stock awards	–	–	–	(583)	(34)	–	–	–	(34)	–	(34)
Cash dividends paid to noncontrolling interest of subsidiary	–	–	–	–	–	–	–	–	–	(285)	(285)
Share-based compensation	–	–	4,334	–	–	–	–	–	4,334	–	4,334
Redemption value adjustment	–	–	–	–	–	–	(756)	–	(756)	–	(756)
Net income	–	–	–	–	–	–	61,958	–	61,958	(162)	61,796
Balance at June 30, 2019	71,471,341	$ 715	$ 485,703	(9,098,294)	$ (324,149)	$ (202,116)	$ 939,618	$ (33,831)	$ 865,940	$ 5,071	$ 871,011

	Generac Holdings Inc.											
	Common Stock		Additional Paid-In	Treasury Stock		Excess Purchase Price Over Predecessor	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'	Noncontrolling	
	Shares	Amount	Capital	Shares	Amount	Basis	Deficit)	Income (Loss)	Equity	Interest	Total
Balance at January 1, 2019	71,186,418	$ 712	$ 476,116	(9,047,060)	$ (321,473)	$ (202,116)	$ 831,123	$ (23,813)	$ 760,549	$ 712	$ 761,261
Acquisition of business	–	–	–	–	–	–	–	–	–	4,125	4,125
Unrealized gain/loss on interest rate swaps, net of tax of ($4,278)	–	–	–	–	–	–	–	(12,177)	(12,177)	–	(12,177)
Foreign currency translation adjustment	–	–	–	–	–	–	–	2,159	2,159	38	2,197
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	284,923	3	1,659	–	–	–	–	–	1,662	–	1,662
Net share settlement of restricted stock awards	–	–	–	(51,234)	(2,676)	–	–	–	(2,676)	–	(2,676)
Cash dividends paid to noncontrolling interest of subsidiary	–	–	–	–	–	–	–	–	–	(285)	(285)
Share-based compensation	–	–	7,928	–	–	–	–	–	7,928	–	7,928
Redemption value adjustment	–	–	–	–	–	–	1,676	–	1,676	–	1,676
Net income	–	–	–	–	–	–	106,819	–	106,819	481	107,300
Balance at June 30, 2019	71,471,341	$ 715	$ 485,703	(9,098,294)	$ (324,149)	$ (202,116)	$ 939,618	$ (33,831)	$ 865,940	$ 5,071	$ 871,011

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

	Generac Holdings Inc.											
	Common Stock		Additional Paid-In	Treasury Stock		Excess Purchase Price Over Predecessor	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'	Noncontrolling	
	Shares	Amount	Capital	Shares	Amount	Basis	Deficit)	Income (Loss)	Equity	Interest	Total
Balance at April 1, 2018	70,989,164	$ 710	$ 464,055	(9,038,902)	$ (321,025)	$ (202,116)	$ 636,816	$ (8,372)	$ 570,068	$ 126	$ 570,194
Unrealized gain/loss on interest rate swaps, net of tax of $748	–	–	–	–	–	–	–	2,130	2,130	5	2,135
Foreign currency translation adjustment	–	–	–	–	–	–	–	(10,658)	(10,658)	(10)	(10,668)
Common stock issued under equity incentive plans, net of shares	41,183	–	658	–	–	–	–	–	658	–	658

withheld for employee taxes and strike price											
Net share settlement of restricted stock awards	–	–	–	(578)	(27)	–	–	–	(27)	–	(27)
Share-based compensation	–	–	3,885	–	–	–	–	–	3,885	–	3,885
Redemption value adjustment	–	–	–	–	–	–	(2,305)	–	(2,305)	–	(2,305)
Net income	–	–	–	–	–	–	53,261	–	53,261	122	53,383
Balance at June 30, 2018	71,030,347	$ 710	$ 468,598	(9,039,480)	$ (321,052)	$ (202,116)	$ 687,772	$ (16,900)	$ 617,012	$ 243	$ 617,255

	Generac Holdings Inc.										
	Common Stock		**Additional Paid-In**	**Treasury Stock**		**Excess Purchase Price Over Predecessor**	**Retained Earnings (Accumulated**	**Accumulated Other Comprehensive**	**Total Stockholders'**	**Noncontrolling**	
	Shares	**Amount**	**Capital**	**Shares**	**Amount**	**Basis**	**Deficit)**	**Income (Loss)**	**Equity**	**Interest**	**Total**
Balance at January 1, 2018	70,820,173	$ 708	$ 459,816	(8,448,874)	$ (294,005)	$ (202,116)	$ 610,836	$ (21,198)	$ 554,041	$ 279	$ 554,320
Unrealized gain/loss on interest rate swaps, net of tax of $3,083	–	–	–	–	–	–	–	8,777	8,777	5	8,782
Foreign currency translation adjustment	–	–	–	–	–	–	–	(4,479)	(4,479)	–	(4,479)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes and strike price	210,174	2	1,791	–	–	–	–	–	1,793	–	1,793
Net share settlement of restricted stock awards	–	–	–	(30,606)	(1,391)	–	–	–	(1,391)	–	(1,391)
Stock repurchases	–	–	–	(560,000)	(25,656)	–	–	–	(25,656)	–	(25,656)
Cash dividends paid to noncontrolling interest of subsidiary	–	–	–	–	–	–	–	–	–	(314)	(314)
Share-based compensation	–	–	6,991	–	–	–	–	–	6,991	–	6,991
Redemption value adjustment	–	–	–	–	–	–	(9,970)	–	(9,970)	–	(9,970)
Net income	–	–	–	–	–	–	86,906	–	86,906	273	87,179
Balance at June 30, 2018	71,030,347	$ 710	$ 468,598	(9,039,480)	$ (321,052)	$ (202,116)	$ 687,772	$ (16,900)	$ 617,012	$ 243	$ 617,255

See notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	**2018**
Operating activities		
Net income	$ 107,475	$ 88,001
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	14,754	12,169
Amortization of intangible assets	12,593	11,114
Amortization of original issue discount and deferred financing costs	2,376	2,367
Loss on extinguishment of debt	–	1,332
Deferred income taxes	11,108	6,257
Share-based compensation expense	7,928	6,991
Other	400	599
Net changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(8,794)	(24,876)
Inventories	(21,157)	(85,592)
Other assets	(3,086)	(13,047)
Accounts payable	(68,539)	33,442
Accrued wages and employee benefits	(14,912)	4,510
Other accrued liabilities	(16,077)	36,578
Excess tax benefits from equity awards	(1,455)	(188)
Net cash provided by operating activities	22,614	79,657
Investing activities		
Proceeds from sale of property and equipment	49	196
Proceeds from beneficial interests in securitization transactions	1,396	1,929
Expenditures for property and equipment	(34,376)	(12,326)
Acquisition of business, net of cash acquired	(112,941)	(71,926)
Net cash used in investing activities	(145,872)	(82,127)
Financing activities		
Proceeds from short-term borrowings	35,790	12,133
Proceeds from long-term borrowings	–	50,000
Repayments of short-term borrowings	(24,325)	(8,172)
Repayments of long-term borrowings and finance lease obligations	(2,000)	(50,797)
Stock repurchases	–	(25,656)
Cash dividends paid to noncontrolling interest of subsidiary	(285)	(314)

Payment of debt issuance costs	–	(1,473)
Taxes paid related to equity awards	(4,441)	(1,725)
Proceeds from exercise of stock options	3,419	2,124
Net cash provided by (used in) financing activities	8,158	(23,880)
Effect of exchange rate changes on cash and cash equivalents	985	(408)
Net decrease in cash and cash equivalents	(114,115)	(26,758)
Cash and cash equivalents at beginning of period	224,482	138,472
Cash and cash equivalents at end of period	$ 110,367	$ 111,714

See notes to consolidated financial statements

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Generac Holdings Inc.
Notes to Condensed Consolidated Financial Statements
(U.S. Dollars in Thousands, Except Share and Per Share Data)
(Unaudited)

1. Description of Business and Basis of Presentation

Founded in 1959, Generac Holdings Inc. (the Company) is a leading designer and manufacturer of energy solutions and other power products. As an industry leader serving residential, light commercial and industrial markets, the Company's products and solutions are available globally through a broad network of independent dealers, distributors, retailers, wholesalers, and equipment rental companies, as well as sold direct to certain end user customers.

Over the years, the Company has executed a number of acquisitions that support its strategic plan (as discussed in Item 1 of the Annual Report on Form 10-K for the year ended December 31, 2018). A summary of acquisitions affecting the reporting periods presented include:

- In June 2018, the Company acquired Selmec Equipos Industriales, S.A. de C.V. (Selmec), headquartered in Mexico City, Mexico. Selmec is a designer and manufacturer of industrial generators ranging from 10kW to 2,750kW. Selmec offers a market-leading service platform and specialized engineering capabilities, together with robust integration, project management and remote monitoring services.
- In February 2019, the Company acquired a majority share of Captiva Energy Solutions Private Limited (Captiva). Captiva, founded in 2010 and headquartered in Kolkata, India, specializes in customized industrial generators.
- In March 2019, the Company acquired Neurio Technology Inc. (Neurio), founded in 2005 and headquartered in Vancouver, British Columbia. Neurio is a leading energy data company focused on metering technology and sophisticated analytics to optimize energy use within a home or business.
- In April 2019, the Company acquired Pika Energy, Inc. (Pika), founded in 2010 and located in Westbrook, Maine. Pika is a manufacturer of battery storage technologies that capture and store solar or grid power for homeowners and businesses and is also a manufacturer of advanced power electronics, software and controls for smart energy storage and management.

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

The condensed consolidated balance sheet as of June 30, 2019, the condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2019 and 2018, the condensed consolidated statements of stockholders' equity for the three and six months ended June 30, 2019 and 2018, and the condensed consolidated statements of cash flows for the six months ended June 30, 2019 and 2018 have been prepared by the Company and have not been audited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary for the fair presentation of the financial position, results of operation and cash flows have been made. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full year.

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

Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2018.

***New Accounting Standards* Not Yet Adopted**

In June 2016, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which represents a new credit loss standard that will change the impairment model for most financial assets and certain other financial instruments. Specifically, this guidance will require entities to utilize a new "expected loss" model as it relates to trade and other receivables. In addition, entities will be required to recognize an allowance for estimated credit losses on available-for-sale debt securities, regardless of the length of time that a security has been in an unrealized loss position. This guidance will be effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual reporting periods, and early adoption is permitted. The Company is currently evaluating the potential impact that the adoption of this guidance may have on the Company's consolidated financial statements.

Recently Adopted Accounting Standards

On April 1, 2019, the Company adopted ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This guidance was issued to address the diversity in practice related to the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The Company adopted this standard prospectively, impacting all implementation costs incurred after adoption. The adoption did not have a material impact on the Company's results of operations and financial position.

On January 1, 2019, the Company adopted ASU 2016-02, Leases. This guidance was issued to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities in the balance sheet and by disclosing key information about leasing arrangements. The Company adopted this standard using the modified retrospective approach as of the date of adoption, meaning no prior period balances were impacted by the adoption. Additionally, the Company elected to adopt the standard using the package of practical expedients permitted under the standard's transition guidance, which allowed the Company to carryforward its historical lease classifications, and embedded lease and initial direct cost assessments. The adoption of the standard had a material impact on the Company's condensed consolidated balance sheet primarily related to the recognition of right-of-use (ROU) assets and lease liabilities for operating leases. However, the adoption did not have a material impact on the condensed consolidated statement of comprehensive income and statement of cash flows. Refer to Note 9, "Leases," for further information regarding the Company's leases.

On January 1, 2019, the Company adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance was issued to address the impact of the change in the U.S. federal corporate income tax rate from the 2017 U.S. Tax Cuts and Jobs Act (the "Tax Act") on items recorded as a component of accumulated other comprehensive income (AOCI). This guidance allows companies to reclassify to retained earnings the stranded tax effects lodged in AOCI as a result of the Tax Act. Upon adoption of the ASU, the Company elected to not reclassify the stranded income tax effects from AOCI to retained earnings.

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

2. Acquisitions

Acquisition of Pika

On April 26, 2019, the Company acquired Pika for a purchase price, net of cash acquired, of $49,068. The acquisition purchase price was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation during the second quarter of 2019 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately $55,986 of intangible assets, including $23,204 of goodwill recorded in the Domestic segment, as of the acquisition date. The goodwill ascribed to the acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Pika from the date of acquisition through June 30, 2019.

Acquisition of Neurio

On March 12, 2019, the Company acquired Neurio for a purchase price of $59,071, net of cash acquired and inclusive of estimated deferred payments of $8,047. The acquisition purchase price was funded solely through cash on hand.

The Company recorded a preliminary purchase price allocation in the second quarter of 2019 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately $58,763 of intangible assets, including $24,263 of goodwill recorded in the Domestic segment, as of the acquisition date. Substantially all of the goodwill ascribed to this acquisition is deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Neurio from the date of acquisition through June 30, 2019.

Acquisition of Selmec

On June 1, 2018, the Company acquired Selmec for a purchase price of $79,972, net of cash acquired and inclusive of estimated earnout payments of $14,902. The acquisition purchase price was funded solely through cash on hand.

The Company finalized the Selmec purchase price allocation during the second quarter of 2019 based upon its estimates of the fair value of the acquired assets and assumed liabilities. As a result, the Company recorded approximately $79,826 of intangible assets, including approximately $46,196 of goodwill recorded in the International segment, as of the acquisition date. The goodwill adjustment recorded during the second quarter of 2019 was not material to the condensed consolidated financial statements. The goodwill ascribed to the acquisition is not deductible for tax purposes. The accompanying condensed consolidated financial statements include the results of Selmec from the date of acquisition through June 30, 2019.

Overall, the net sales contribution from all non-annualized acquisitions to the three and six month periods ended June 30, 2019 was $12,342 and $27,205, respectively.

3. Redeemable Noncontrolling Interest

On March 1, 2016, the Company acquired a 65% ownership interest in PR Industrial S.r.l. and its subsidiaries (Pramac). The 35% noncontrolling interest in Pramac had an acquisition date fair value of $34,253, and was recorded as a redeemable noncontrolling interest in the condensed consolidated balance sheet, as the noncontrolling interest holder had within its control the right to require the Company to redeem its interest in Pramac. In February 2019, the Company amended its agreement with the noncontrolling interest holder of Pramac, extending the agreement by 5 years, allowing the Company to exercise its call option rights in partial increments at certain times during the five year period, and providing that the noncontrolling interest holder no longer holds the right to put its shares to the Company until April 1, 2021.

The redeemable noncontrolling interest is recorded at the greater of the initial fair value, increased or decreased for the noncontrolling interests' share of comprehensive income (loss), or the estimated redemption value, with any adjustments to the redemption value impacting retained earnings, but not net income. However, the redemption value adjustments are reflected in the earnings per share calculation, as detailed in Note 14, "Earnings Per Share," to the condensed consolidated financial statements. The following table presents the changes in the redeemable noncontrolling interest:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Balance at beginning of period	$ 57,357	$ 54,404	$ 61,004	$ 43,929
Net income	(90)	848	175	822
Foreign currency translation	1,094	(4,522)	(386)	(1,686)
Redemption value adjustment	756	2,305	(1,676)	9,970
Balance at end of period	$ 59,117	$ 53,035	$ 59,117	$ 53,035

4. Derivative Instruments and Hedging Activities

The Company records all derivatives in accordance with Accounting Standards Codification (ASC) 815, *Derivatives and Hedging*, which requires derivative instruments to be reported on the condensed 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.

The Company periodically utilizes commodity derivatives and foreign currency forward purchase and sales contracts in the normal course of business. Because these contracts do not qualify for hedge accounting, the related gains and losses are recorded in the Company's condensed consolidated statements of comprehensive income. These gains and losses are not material to the Company's condensed consolidated financial statements.

Interest Rate Swaps

The Company entered into two interest rate swap agreements in October 2013 and one interest rate swap agreement in May 2014, all of which expired in July 2018. In 2017, the Company entered into twenty interest rate swap agreements, all of which are still outstanding as of June 30, 2019. The Company formally documented all relationships between interest rate hedging instruments and the related hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. These interest rate swap agreements qualify as cash flow hedges and therefore, the effective portions of the gains or losses are reported as a component of accumulated other comprehensive loss (AOCL) in the condensed consolidated balance sheets. The amount of losses, net of tax, recognized for the three and six months ended June 30, 2019 were $(7,053) and $(12,177), respectively. The amount of gains, net of tax, recognized for the three and six months ended June 30, 2018 were $2,130 and $8,777, respectively. The cash flows of the swaps are recognized as adjustments to interest expense each period. The ineffective portions of the derivatives' changes in fair value, if any, are immediately recognized in earnings.

Fair Value

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

	June 30, 2019	December 31, 2018
Commodity contracts	$ (65)	$ (160)
Foreign currency contracts	72	(117)
Interest rate swaps	(8,148)	8,307

The fair value of the commodity contracts is included in other accrued liabilities, the fair value of the foreign currency contracts is included in other assets and the fair value of the interest rate swaps is included in other long-term liabilities in the condensed consolidated balance sheets as of June 30, 2019. The fair values of the commodity and foreign currency contracts are included in other accrued liabilities, and the fair value of the interest rate swaps is included in other assets in the consolidated balance sheet as of December 31, 2018. Excluding the impact of credit risk, the fair value of the derivative contracts as of June 30, 2019 and December 31, 2018 is a liability of $8,279 and an asset of $8,220, respectively, which represents the amount the Company would pay/receive upon exit of the agreements on those dates.

5. Fair Value Measurements

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

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings and ABL facility borrowings), excluding Term Loan borrowings, approximates the fair value of these instruments based upon their short-term nature. The fair value of Term Loan borrowings, which have an aggregate carrying value of $860,083, was approximately $879,000 (Level 2) at June 30, 2019, as calculated based on independent valuations whose inputs and significant value drivers are observable.

For the fair value of the derivatives measured on a recurring basis, refer to the fair value table in Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements. The fair value of all derivative contracts is classified as Level 2. The valuation techniques used to measure the fair value of derivative contracts, all of which have counterparties with high credit ratings, were based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above considers the Company's credit risk in accordance with ASC 820-10.

6. Accumulated Other Comprehensive Loss

The following presents a tabular disclosure of changes in AOCL during the three and six months ended June 30, 2019 and 2018, net of tax:

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges		Total
Beginning Balance – April 1, 2019	$ (19,765)	$ (10,541)	$ 436		$ (29,870)
Other comprehensive income (loss) before reclassifications	3,092	-	(7,053)	(1)	(3,961)
Amounts reclassified from AOCL	-	-	-		-
Net current-period other comprehensive income (loss)	3,092	-	(7,053)		(3,961)
Ending Balance – June 30, 2019	$ (16,673)	$ (10,541)	$ (6,617)		$ (33,831)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain on Cash Flow Hedges		Total
Beginning Balance – April 1, 2018	$ (6,677)	$ (10,978)	$ 9,283		$ (8,372)
Other comprehensive income (loss) before reclassifications	(10,658)	-	2,130	(2)	(8,528)
Amounts reclassified from AOCL	-	-	-		-
Net current-period other comprehensive income (loss)	(10,658)	-	2,130		(8,528)
Ending Balance – June 30, 2018	$ (17,335)	$ (10,978)	$ 11,413		$ (16,900)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain (Loss) on Cash Flow Hedges		Total
Beginning Balance – January 1, 2019	$ (18,832)	$ (10,541)	$ 5,560		$ (23,813)
Other comprehensive income (loss) before reclassifications	2,159	-	(12,177)	(3)	(10,018)
Amounts reclassified from AOCL	-	-	-		-
Net current-period other comprehensive income (loss)	2,159	-	(12,177)		(10,018)
Ending Balance – June 30, 2019	$ (16,673)	$ (10,541)	$ (6,617)		$ (33,831)

	Foreign Currency Translation Adjustments	Defined Benefit Pension Plan	Unrealized Gain on Cash Flow Hedges		Total
Beginning Balance – January 1, 2018	$ (12,856)	$ (10,978)	$ 2,636		$ (21,198)
Other comprehensive income (loss) before reclassifications	(4,479)	-	8,777	(4)	4,298
Amounts reclassified from AOCL	-	-	-		-
Net current-period other comprehensive income (loss)	(4,479)	-	8,777		4,298
Ending Balance – June 30, 2018	$ (17,335)	$ (10,978)	$ 11,413		$ (16,900)

(1) Represents unrealized losses of $(9,531), net of tax effect of $2,478 for the three months ended June 30, 2019.
(2) Represents unrealized gains of $2,878, net of tax effect of $(748), for the three months ended June 30, 2018.
(3) Represents unrealized losses of $(16,455), net of tax effect of $4,278 for the six months ended June 30, 2019.
(4) Represents unrealized gains of $11,860, net of tax effect of $(3,083), for the six months ended June 30, 2018.

7. Segment Reporting

The Company has two reportable segments for financial reporting purposes - Domestic and International. The Domestic segment includes the legacy Generac business and the impact of acquisitions that are based in the U.S. and Canada, all of which have revenues that are substantially derived from the U.S. and Canada. The International segment includes the Ottomotores, Tower Light, Pramac, Motortech and Selmec businesses, all of which have revenues that are substantially derived from outside of the U.S and Canada. Both reportable segments design and manufacture a wide range of power generation equipment and other power products. The Company has multiple operating segments, which it aggregates into the two reportable segments, based on materially similar economic characteristics, products, production processes, classes of customers and distribution methods.

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

	Net Sales by Segment		
	Three Months Ended June 30, 2019		
Product Classes	Domestic	International	Total
Residential products	$ 255,182	$ 13,192	$ 268,374
Commercial & industrial products	138,540	91,889	230,428
Other	32,216	10,897	43,114
Total net sales	$ 425,938	$ 115,978	$ 541,916

	Three Months Ended June 30, 2018		
Product Classes	Domestic	International	Total
Residential products	$ 234,131	$ 12,267	$ 246,398
Commercial & industrial products	120,521	95,107	215,628
Other	29,027	6,528	35,555
Total net sales	$ 383,679	$ 113,902	$ 497,581

	Six Months Ended June 30, 2019		
Product Classes	Domestic	International	Total
Residential products	$ 460,363	$ 25,841	$ 486,204
Commercial & industrial products	260,986	178,566	439,552
Other	63,837	22,675	86,513
Total net sales	$ 785,186	$ 227,083	$ 1,012,269

	Six Months Ended June 30, 2018		
Product Classes	Domestic	International	Total
Residential products	$ 410,816	$ 26,056	$ 436,872
Commercial & industrial products	218,292	172,461	390,753
Other	57,247	12,800	70,047
Total net sales	$ 686,355	$ 211,317	$ 897,672

Residential products consist primarily of automatic home standby generators ranging in output from 6kW to 60kW, portable generators, energy storage solutions, power washers and other outdoor power equipment. These products are sold through independent residential dealers, national and regional retailers, e-commerce merchants, electrical and HVAC wholesalers and outdoor power equipment dealers. The residential products revenue consists of the sale of the product to our distribution partners, which in turn sell or rent the product to the end consumer, including installation and maintenance services. In some cases, residential products are sold direct to the end consumer. Substantially all of the residential products revenues are transferred to the customer at a point in time.

C&I products consist of larger output stationary generators used in various C&I applications and fueled by diesel, natural gas, liquid propane and bi-fuel, with power outputs ranging from 10kW up to 3,250kW for single engine sets. Also included in C&I products are mobile generators, light towers, mobile heaters and mobile pumps. These products are sold through industrial distributors and dealers, equipment rental companies and equipment distributors. The C&I products revenue consists of the sale of the product to our distribution partners, which in turn sell or rent the product to the end customer, including installation and maintenance services. In some cases, C&I products are sold direct to the end customer. Substantially all of the C&I products revenues are transferred to the customer at a point in time.

Other products consist primarily of aftermarket service parts and product accessories sold to our dealers, and the amortization of extended warranty deferred revenue. The aftermarket service parts and product accessories are generally transferred to the customer at a point in time, while the extended warranty revenue is recognized over the life of the contract.

In accordance with ASU 2014-09, *Revenue from Contracts with Customers*, extended warranty revenues are reported within net sales in the condensed consolidated statements of comprehensive income. Previously, these amounts were reported net within selling and service expense on the condensed consolidated statements of comprehensive income, in amounts that were not material. To report extended warranty in accordance with ASU 2014-09, the net sales and gross profit amounts for the three months ended June 30, 2018 have been revised by $2,632 and $2,217, respectively, and the net sales and gross profit amounts for the six months ended June 30, 2018 have been revised by $5,089 and $4,155, respectively, from the amounts previously reported in the Company's second quarter 2018 Form 10-Q, with equal offsets to selling and service expenses. The revisions impacted the Domestic segment and the Other product class. There was no impact to income from operations, net income or comprehensive income, earnings per share, the condensed consolidated balance sheets, the condensed consolidated statements of stockholders' equity, or the condensed consolidated statements of cash flows.

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

	Adjusted EBITDA			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Domestic	$ 104,531	$ 90,602	$ 185,506	$ 156,077
International	7,355	11,628	13,508	17,934
Total adjusted EBITDA	$ 111,886	$ 102,230	$ 199,014	$ 174,011
Interest expense	(10,452)	(11,002)	(20,724)	(21,115)
Depreciation and amortization	(14,740)	(11,600)	(27,347)	(23,283)
Non-cash write-down and other adjustments (1)	(1,726)	(1,316)	(326)	(2,622)
Non-cash share-based compensation expense (2)	(4,334)	(3,885)	(7,928)	(6,991)
Loss on extinguishment of debt (3)	-	(1,332)	-	(1,332)
Transaction costs and credit facility fees (4)	(413)	(441)	(1,699)	(703)
Business optimization expenses (5)	(73)	(29)	(242)	(167)
Other	385	(12)	539	1
Income before provision for income taxes	$ 80,533	$ 72,613	$ 141,287	$ 117,799

(1) Includes certain foreign currency and purchase accounting related adjustments, gains/losses on disposal of assets, and unrealized mark-to-market adjustments on commodity contracts.
(2) Represents share-based compensation expense to account for stock options, restricted stock and other stock awards over their respective vesting periods.
(3) Represents the non-cash write-off of original issue discount and deferred financing costs due to a voluntary prepayment of Term Loan debt.
(4) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance, debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities.
(5) Represents severance and other non-recurring restructuring charges related to the consolidation of certain of our facilities.

The Company's sales in the United States represented approximately 74% and 73% of total sales for the three months ended June 30, 2019 and 2018, respectively. The Company's sales in the United States represented approximiately 73% and 72% of total sales for the six month periods ended June 30, 2019 and 2018, respectively. Approximately 80% of the Company's identifiable long-lived assets were located in the United States at June 30, 2019 and December 31, 2018.

8. Balance Sheet Details

Inventories consist of the following:

	June 30, 2019	December 31, 2018
Raw material	$ 340,716	$ 348,980
Work-in-process	7,453	6,971
Finished goods	222,158	188,799
Total	$ 570,327	$ 544,750

Property and equipment consists of the following:

	June 30, 2019	December 31, 2018
Land and improvements	$ 17,941	$ 15,975
Buildings and improvements	174,901	163,161
Machinery and equipment	109,537	103,726
Dies and tools	20,135	28,198
Vehicles	3,321	2,070
Office equipment and systems	89,007	82,638
Leasehold improvements	3,809	2,137
Construction in progress	28,339	26,543
Gross property and equipment	446,990	424,448
Accumulated depreciation	(146,195)	(145,519)
Total	$ 300,795	$ 278,929

Total property and equipment included capital leases of $20,158 at December 31, 2018, primarily made up of buildings and improvements. Amortization of capital leases is recorded within depreciation expense in the condensed consolidated statements of comprehensive income. The initial measurement of capital leases is accounted for as a non-cash item in the condensed consolidated statement of cash flows. Refer to Note 9, “Leases,” for further information regarding the Company’s accounting for leases under ASC 842 in 2019.

9. Leases

The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes a ROU asset and lease liability at the lease commencement date based on the present value of the lease payments over the lease term. As the Company’s leases generally do not provide an implicit rate, the incremental borrowing rate is used to determine the present value of lease payments. The incremental borrowing rate is a collateralized rate determined based on the lease term, the Company’s credit rating, and other market information available at the commencement date. The ROU asset also includes any lease payments made prior to the commencement date and is reduced by any lease incentives. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term, while lease expense for finance leases is recognized as depreciation and interest expense using the effective interest method. The Company’s variable lease expense generally consists of property tax and insurance payments that are variable in nature, however, these amounts are immaterial to the condensed consolidated financial statements.

The Company has lease agreements with both lease and nonlease components, which it elected to account for as a single lease component. However, the Company did not elect to apply the recognition exception for short-term leases. The Company is applying these elections to all asset classes.

The Company leases certain manufacturing facilities, distribution centers, office space, warehouses, automobiles, machinery and computer equipment globally under both finance and operating leases. The Company’s leases have remaining lease terms of up to 20 years, of which certain leases, primarily within the buildings and improvements asset class, include options to extend the leases for up to 10 additional years. Further, the Company leases certain buildings from a noncontrolling interest holder, which the Company has determined to be arms’ length transactions.

The Company is a lessor of one building that it leases to a third party. The lease income related to this arrangement is not material to the condensed consolidated financial statements.

The Company records its operating lease cost and amortization of finance lease ROU assets within cost of goods sold or operating expenses in the condensed consolidated statement of comprehensive income depending on the cost center of the underlying asset. The Company records its finance lease interest cost within interest expense in the condensed consolidated statement of comprehensive income.

The components of total lease cost consist of the following:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	$ 2,352	$ 4,951
Finance lease cost:		
Amortization of ROU assets	704	1,122
Interest on lease liabilities	561	1,142
Total lease cost	$ 3,617	$ 7,215

Prior to the adoption of ASC 842, lease expense consisted of payments on operating leases.

As of January 1, 2019, the date of the adoption of ASU 2016-02, the Company recognized ROU assets and lease liabilities related to operating leases of $42,024 and $42,056, respectively, and there was no cumulative effect adjustment made to retained earnings. Supplemental balance sheet information related to the Company's leases was as follows:

	June 30, 2019
Operating Leases	
Operating lease ROU assets (1)	$ 39,799
Operating lease liabilities - current (2)	$ 7,753
Operating lease liabilities - noncurrent (3)	33,012
Total operating lease liabilities	$ 40,765
Finance Leases	
Finance lease ROU assets, gross	$ 29,221
Accumulated depreciation - finance lease ROU assets	(2,786)
Finance lease ROU assets, net (4)	$ 26,435
Finance lease liabilities - current (5)	$ 1,648
Finance lease liabilities - noncurrent (6)	24,363
Total finance lease liabilities	$ 26,011

(1) Recorded in the operating lease and other assets line
(2) Recorded in the other accrued liabilities line
(3) Recorded in the operating lease and other long-term liabilities line
(4) Recorded in the property & equipment, net line
(5) Recorded in the current portion of long-term borrowings and finance lease obligations line
(6) Recorded in the long-term borrowings and finance lease obligations line

Supplemental cash flow information related to the Company's leases was as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 2,768	$ 5,386
Operating cash flows from finance leases	466	922
Financing cash flows from finance leases	827	1,356
ROU assets obtained in exchange for lease liabilities		
Operating leases	2,396	2,793
Finance leases	995	7,971

Weighted average remaining lease term and discount rate information related to the Company's leases was as follows:

	June 30, 2019
Weighted average remaining lease term (in years)	
Operating Leases	7.13
Finance Leases	14.32
Weighted average discount rate	
Operating Leases	5.50%
Finance Leases	7.83%

The maturities of the Company's lease liabilities are as follows:

	As of June 30, 2019	
	Finance Leases	Operating Leases
Remainder of 2019	$ 1,806	$ 4,978
2020	3,498	8,861
2021	3,122	6,904
2022	2,792	5,373
2023	2,659	4,624
After 2023	32,026	18,591
Total minimum lease payments	45,903	49,331
Interest	(19,892)	(8,566)
Present value of minimum lease payments	$ 26,011	$ 40,765

	As of December 31, 2018	
	Capital Leases	Operating Leases
2019	$ 2,166	$ 8,914
2020	2,477	7,575
2021	2,053	6,379
2022	1,995	4,955
2023	1,889	4,482
After 2023	18,108	18,614
Total minimum lease payments	28,688	$ 50,919
Interest	(8,517)	
Present value of minimum lease payments	$ 20,171	

10. Product Warranty Obligations

The Company records a liability for standard product warranty obligations accounted for as assurance warranties 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 following is a tabular reconciliation of the Company's standard product warranty liability accounted for as an assurance warranty:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Balance at beginning of period	$ 43,562	$ 36,319	$ 41,785	$ 35,422
Product warranty reserve assumed in acquisition	195	-	407	-
Payments	(5,657)	(4,907)	(11,291)	(9,892)
Provision for warranty issued	8,178	6,275	15,138	11,478
Changes in estimates for pre-existing warranties	(954)	973	(715)	1,652
Balance at end of period	$ 45,324	$ 38,660	$ 45,324	$ 38,660

Additionally, the Company sells extended warranty coverage for certain products, which it accounts for as a service warranty. The sales of extended warranties are recorded as deferred revenue, and typically have a duration of5 to 10 years. The deferred revenue related to extended warranty coverage is amortized over the duration of the extended warranty contract period, following the standard warranty period, using the straight-line method. Revenue is recognized on extended warranty contracts when the revenue recognition criteria are met, resulting in ratable recognition over the contract term. The amortization of deferred revenue is recorded to net sales in the condensed consolidated statements of comprehensive income. The following is a tabular reconciliation of the deferred revenue related to extended warranty coverage:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Balance at beginning of period	$ 70,844	$ 60,113	$ 68,340	$ 57,854
Deferred revenue contracts issued	7,114	5,526	12,914	10,242
Amortization of deferred revenue contracts	(3,441)	(2,632)	(6,737)	(5,089)
Balance at end of period	$ 74,517	$ 63,007	$ 74,517	$ 63,007

The timing of recognition of the Company's deferred revenue balance related to extended warranties at June 30, 2019 is as follows:

Remainder of 2019	$ 7,708
2020	15,097
2021	14,998
2022	12,660
2023	9,405
After 2023	14,649
Total	$ 74,517

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

	June 30, 2019	December 31, 2018
Product warranty liability		
Current portion - other accrued liabilities	$ 26,948	$ 25,396
Long-term portion - other long-term liabilities	18,376	16,389
Total	$ 45,324	$ 41,785
Deferred revenue related to extended warranties		
Current portion - other accrued liabilities	$ 13,925	$ 13,646
Long-term portion - other long-term liabilities	60,592	54,694
Total	$ 74,517	$ 68,340

11. Contract Balances

In certain cases, the Company's customers pay for their goods in advance. These prepayments are recognized as customer deposits (contract liabilities) and recorded in other accrued liabilities in the condensed consolidated balance sheets. The balance of customer deposits was $8,577 and $14,174 at June 30, 2019 and December 31, 2018, respectively. During the six months ended June 30, 2019, the Company recognized revenue of $8,177 related to amounts included in the December 31, 2018 customer deposit balance. The Company typically recognizes revenue within one year of the receipt of the customer deposit.

12. Credit Agreements

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

	June 30, 2019	December 31, 2018
ABL facility	$ 26,405	$ 18,459
Other lines of credit	30,626	27,124
Total	$ 57,031	$ 45,583

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

	June 31, 2019	December 31, 2018
Term loan	$ 879,000	$ 879,000
Original issue discount and deferred financing costs	(20,064)	(22,440)
Finance lease obligation	26,011	20,171
Other	985	1,642
Total	885,932	878,373
Less: current portion of debt	808	1,075
Less: current portion of finance lease obligation	1,648	902
Total	$ 883,476	$ 876,396

The Company’s credit agreements originally provided for a $1,200,000 term loan B credit facility (Term Loan) and currently include a $300,000 uncommitted incremental term loan facility. The maturity date of the Term Loan is May 31, 2023. The Term Loan is guaranteed by all of the Company’s wholly-owned domestic restricted subsidiaries, and is secured by associated collateral agreements which pledge a first priority lien on virtually all of the Company’s assets, including fixed assets and intangibles, other than all cash, trade accounts receivable, inventory, and other current assets and proceeds thereof, which are secured by a second priority lien. The Term Loan initially bore interest at rates based upon either a base rate plus an applicable margin of 1.75% or adjusted LIBOR rate plus an applicable margin of 2.75%, subject to a LIBOR floor of 0.75%. The Term Loan agreement has been amended a number of times since inception.

In June 2018, the Company amended the Term Loan, which further reduced the applicable margin rates to base rate plus a fixed applicable margin of 0.75% or adjusted LIBOR rate plus a fixed applicable margin of 1.75%.

The Term Loan does not require an Excess Cash Flow payment if the Company’s secured leverage ratio is maintained below 3.75 to 1.00 times. As of June 30, 2019, the Company’s net secured leverage ratio was 1.81 to 1.00 times, and the Company was in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

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

In June 2018, the Company amended the ABL Facility; increasing it from $250,000 to $300,000 and extending the maturity date to June 12, 2023. In addition, the ABL Facility amendment modified the pricing by reducing certain applicable interest rates to either a base rate plus an applicable margin of 0.375% or an adjusted LIBOR rate plus an applicable margin of 1.375%.

As of June 30, 2019, there was $26,405 outstanding under the ABL Facility, leaving $273,191 of availability, net of outstanding letters of credit.

As of June 30, 2019 and December 31, 2018, short-term borrowings consisted of borrowings by the Company’s foreign subsidiaries on local lines of credit and the ABL Facility, which totaled $57,031 and $45,583, respectively.

13. Stock Repurchase Program

In August 2015, the Company's Board of Directors approved a $200,000 stock repurchase program, which the Company completed in the third quarter of 2016. In October 2016, the Company's Board of Directors approved another $250,000 stock repurchase program, which expired in the fourth quarter of 2018. In September 2018, the Company's Board of Directors approved another stock repurchase program, which commenced in October 2018, and under which the Company may repurchase an additional $250,000 of its common stock over the following 24 months. The Company may repurchase its common stock from time to time, in amounts and at prices the Company deems appropriate, subject to market conditions and other considerations. The repurchases may be executed using open market purchases, privately negotiated agreements or other transactions. The actual timing, number and value of shares repurchased under the program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's common stock and general market and economic conditions, applicable legal requirements, and compliance with the terms of the Company's outstanding indebtedness. The repurchases may be funded with cash on hand, available borrowings or proceeds from potential debt or other capital markets sources. The stock repurchase program may be suspended or discontinued at any time without prior notice. During the six months ended June 30, 2018, the Company repurchased 560,000 shares of its common stock for $25,656, funded with cash on hand. There were noshare repurchases during the three and six months ended June 30, 2019. Since the inception of the above noted programs, the Company has repurchased 8,676,706 shares of its common stock for $305,547, all funded with cash on hand.

14. Earnings Per Share

Basic earnings per share is calculated by dividing net income attributable to the common stockholders of the Company by the weighted average number of common shares outstanding during the period, exclusive of restricted shares. Except where the result would be anti-dilutive, diluted earnings per share is calculated by assuming the vesting of unvested restricted stock and the exercise of stock options. Refer to Note 3, "Redeemable Noncontrolling Interest" for further information regarding the accounting for redeemable noncontrolling interests.

The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator				
Net income attributable to Generac Holdings Inc.	$ 61,958	$ 53,261	$ 106,819	$ 86,906
Redeemable noncontrolling interest redemption value adjustment	(756)	(2,305)	1,676	(9,970)
Net income attributable to common shareholders	$ 61,202	$ 50,956	$ 108,495	$ 76,936
Denominator				
Weighted average shares, basic	61,921,711	61,534,423	61,841,823	61,696,014
Dilutive effect of stock compensation awards (1)	484,152	520,024	507,207	563,698
Diluted shares	62,405,863	62,054,447	62,349,030	62,259,712
Net income attributable to common shareholders per share				
Basic	$ 0.99	$ 0.83	$ 1.75	$ 1.25
Diluted	$ 0.98	$ 0.82	$ 1.74	$ 1.24

(1) Excludes approximately 41,000 and 142,600 stock options for the three months ended June 30, 2019 and 2018, respectively, as the impact of such awards was anti-dilutive. Excludes approximately 76,000 and 81,800 stock options for the six months ended June 30, 2019 and 2018, respectively, as the impact of such awards was anti-dilutive.

15. Income Taxes

The effective income tax rates for the six months ended June 30, 2019 and 2018 were 23.9% and 25.3%, respectively. The decrease in the effective income tax rate in 2019 was primarily due to the mix of taxable income in the jurisdictions where we pay tax and additional tax deductions related to stock compensation.

16. Benefit Plans

In June 2019, the Compensation Committee of the Company's Board of Directors approved a resolution to terminate the Company's defined benefit pension plan (the Pension Plan). After this approval, during the second quarter of 2019, the Company commenced the plan termination process. In the third quarter of 2019, the Company intends to amend the Pension Plan to provide eligible participants choice of a lump sum or annuity payment. The Company expects to complete the lump sum payments and the transfer of the remaining Pension Plan assets to a third-party administrator within the next twelve months. Termination of the Pension Plan will not result in a reduction of benefits to plan participants. The decision to terminate the Pension Plan follows the Company's decision in 2008 to freeze benefits being accrued under the previous noncontributory salaried and hourly pension plans, which were merged into one plan effective December 31, 2018. Upon settlement of the pension liability, the Company will reclassify the related pension losses currently recorded to AOCL, to the consolidated statements of comprehensive income.

17. Commitments and Contingencies

The Company has an arrangement with a finance company to provide floor plan financing for certain dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits and has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at June 30, 2019 and December 31, 2018 was approximately $53,304 and $47,200, respectively.

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

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

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

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

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

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

- frequency and duration of power outages impacting demand for our products;
- availability, cost and quality of raw materials and key components and labor needed in producing our products;
- the impact on our results of possible fluctuations in interest rates, foreign currency exchange rates, commodities, product mix and regulatory tariffs;
- 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 or into new markets;
- our dependence on our distribution network;
- our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;
- loss of our key management and employees;
- increase in product and other liability claims or recalls;
- failures or security breaches of our networks or information technology systems; and
- changes in environmental, health and safety, or product compliance laws and regulations affecting our products or operations.

Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, our actual results may vary in material respects from those projected in any forward-looking statements. A detailed discussion of these and other factors that may affect future results is contained in our filings with the Securities and Exchange Commission, including in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018. Stockholders, potential investors and other readers should consider these factors carefully in evaluating the forward-looking statements.

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

Overview

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

Business Drivers and Operational Factors

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

Business Drivers and Trends

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

Increasing penetration opportunity. Many potential customers are still not aware of the costs and benefits of automatic backup power solutions. We estimate that penetration rates for home standby generators are only approximately 4.5% of U.S. single-family detached, owner-occupied households with a home value of over $100,000, as defined by the U.S. Census Bureau's 2017 American Housing Survey for the United States. The decision to purchase backup power for many light-commercial buildings such as convenience stores, restaurants and gas stations is more return-on-investment driven and as a result, these applications have relatively lower penetration rates as compared to buildings used in code-driven or mission critical applications such as hospitals, wastewater treatment facilities, 911 call centers, data centers and certain industrial locations. The emergence of lower cost, cleaner burning natural gas-fueled generators has helped to increase the penetration of standby generators over the past decade in the light-commercial market. In addition, the installed base of backup power for telecommunications infrastructure is still increasing due to the growing importance for uninterrupted voice and data services, in particular as 5G networks roll-out. We believe by expanding our distribution network, continuing to develop our product line and targeting our marketing efforts, we can continue to build awareness and increase penetration for our standby generators for residential, commercial and industrial purposes.

Effect of large scale and baseline power disruptions. Power disruptions are an important driver of customer awareness for back-up power and have historically influenced demand for generators, both in the United States and internationally. Increased frequency and duration of major power outage events, that have a broader impact beyond a localized level, increases product awareness and may drive consumers to accelerate their purchase of a standby or portable generator during the immediate and subsequent period, which we believe may last for six to twelve months following a major power outage event for standby generators. For example, the major outage events that occurred during the second half of 2017 drove strong demand for portable and home standby generators, and the increased awareness of these products contributed to strong revenue growth in both 2017 and 2018. In addition, demand for home standby generators is currently increasing in the California market due to the threat of utility shut-offs that could cause major power outage events in the future. Major power disruptions are unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. In addition, there are smaller, more localized power outages that occur frequently across the United States that drive the baseline level of demand for back-up power solutions. The level of baseline power outage activity occurring across the United States can also fluctuate, and may cause our financial results to fluctuate from year to year.

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

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

Factors Affecting Results of Operations

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

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

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

Seasonality. Although there is demand for our products throughout the year, in each of the past five years approximately 20% to 24% of our net sales occurred in the first quarter, 22% to 25% in the second quarter, 24% to 28% in the third quarter and 27% to 29% in the fourth quarter, with different seasonality depending on the occurrence, timing and severity of major power outage activity in each year. Major outage activity is unpredictable by nature and, as a result, our sales levels and profitability may fluctuate from period to period. The seasonality experienced during a major power outage, and for the subsequent quarters following the event, will vary relative to other periods where no major outage events occurred. We maintain a flexible production and supply chain infrastructure in order to respond to outage-driven peak demand.

Factors influencing interest expense and cash interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in LIBOR, interest rate election periods, interest rate swap agreements, repayments or borrowings of indebtedness, and amendments to our credit agreements. Interest expense decreased slightly during the six months ended June 30, 2019 compared to the six months ended June 30, 2018, primarily due to lower interest rate spreads resulting from Term Loan and ABL Facility amendments in June 2018 and new interest rate swaps beginning in July 2018. Refer to Note 12, "Credit Agreements," to the condensed consolidated financial statements for further information.

Factors influencing provision for income taxes and cash income taxes paid. We had approximately $347 million of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2018 related to our acquisition by CCMP Capital Advisors, LLC in 2006 that we expect to generate aggregate cash tax savings of approximately $90 million through 2021, assuming continued profitability of our U.S. business and a combined federal and state tax rate of 26%. The recognition of the tax benefit associated with these assets for tax purposes is expected to be $122 million annually through 2020 and $102 million in 2021, which generates annual cash tax savings of $32 million through 2020 and $26 million in 2021. Based on current business plans, we believe that our cash tax obligations through 2021 will be significantly reduced by these tax attributes, after which our cash tax obligation will increase. Other domestic acquisitions have resulted in additional tax deductible goodwill and intangible assets that will generate tax savings, but are not material to the Company's condensed consolidated financial statements.

Acquisitions. Over the years, we have executed a number of acquisitions that support our strategic plan. A summary of the recent acquisitions can be found in Note 1, "Description of Business and Basis of Presentation," to the condensed consolidated financial statements in Item 1 of this quarterly report on Form 10-Q, and in Item 8 (Note 1 "Description of Business") of the Annual Report on Form 10-K for the year ended December 31, 2018.

Recent Updates

The Company recently completed two acquisitions – Neurio Technology, Inc. ("Neurio," acquired on March 12, 2019) and Pika Energy, Inc. ("Pika," acquired on April 26, 2019). Neurio is a leading energy data company focused on metering technology and sophisticated analytics to optimize energy use within a home or business. Pika is a manufacturer of energy storage technologies that capture and store solar or grid power for homeowners or business owners. Together, these acquisitions provide the Company with the technology to enter the rapidly developing market for energy management and storage. By combining Generac's strong distribution, brand, and market creation capabilities with Neurio's valuable energy monitoring technologies and Pika's expertise in energy storage, we believe we are well positioned to offer a new, differentiated line of products and solutions to help homeowners and business owners reduce their overall energy costs.

Further information on these recent acquisitions can be found in Notes 1, "Description of Business and Basis of Presentation," and Note 2, "Acquisitions" to the condensed consolidated financial statements in Item 1 of this quarterly report on Form 10-Q.

Results of Operations

Three months ended June 30, 2019 compared to the three months ended June 30, 2018

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

	Three Months Ended June 30,			
(U.S. Dollars in thousands)	**2019**	**2018**	**$ Change**	**% Change**
Net sales	$ 541,916	$ 497,581	$ 44,335	8.9%
Cost of goods sold	346,078	319,108	26,970	8.5%
Gross profit	195,838	178,473	17,365	9.7%
Operating expenses:				
Selling and service	52,309	48,269	4,040	8.4%
Research and development	17,694	12,616	5,078	40.3%
General and administrative	27,658	26,639	1,019	3.8%
Amortization of intangible assets	7,251	5,482	1,769	32.3%
Total operating expenses	104,912	93,006	11,906	12.8%
Income from operations	90,926	85,467	5,459	6.4%
Total other income (expense), net	(10,393)	(12,854)	2,461	-19.1%
Income before provision for income taxes	80,533	72,613	7,920	10.9%
Provision for income taxes	18,827	18,382	445	2.4%
Net income	61,706	54,231	7,475	13.8%
Net income attributable to noncontrolling interests	(252)	970	(1,222)	-126.0%
Net income attributable to Generac Holdings Inc.	$ 61,958	$ 53,261	8,697	16.3%

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

	Net Sales			
	Three Months Ended June 30,			
(U.S. Dollars in thousands)	**2019**	**2018**	**$ Change**	**% Change**
Domestic	$ 425,938	$ 383,679	42,259	11.0%
International	115,978	113,902	2,076	1.8%
Total net sales	$ 541,916	$ 497,581	44,335	8.9%

	Adjusted EBITDA			
	Three Months Ended June 30,			
	2019	**2018**	**$ Change**	**% Change**
Domestic	$ 104,531	$ 90,602	13,929	15.4%
International	7,355	11,628	(4,273)	-36.7%
Total Adjusted EBITDA	$ 111,886	$ 102,230	9,656	9.4%

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

(U.S. Dollars in thousands)	Three Months Ended June 30, 2019	2018	$ Change	% Change
Residential products	$ 268,374	$ 246,398	21,976	8.9%
Commercial & industrial products	230,428	215,628	14,800	6.9%
Other	43,114	35,555	7,559	21.3%
Total net sales	$ 541,916	$ 497,581	44,335	8.9%

Net sales. The increase in Domestic sales for the three months ended June 30, 2019 was primarily due to strong growth in shipments of home standby generators, as well as strong C&I stationary generator shipments primarily driven by telecom customers. Partially offsetting the year-over-year sales growth was a decrease in sales of portable generators as the prior year quarter benefitted from channel replenishment following elevated outage activity.

International sales for the three months ended June 30, 2019 increased 1.8% compared to the prior year quarter. Core sales, which excludes the impact of the Selmec and Captiva acquisitions, as well as the unfavorable impact of currency, declined by approximately 3% due to the timing of certain large projects that shipped during the prior year quarter.

Overall, the net sales contribution from non-annualized recent acquisitions to the three months ended June 30, 2019 was $12.3 million.

Gross profit. Gross profit margin for the second quarter of 2019 was 36.1% compared to 35.9% in the prior-year second quarter. The increase is driven by favorable sales mix and pricing actions, partially offset by realization of higher input costs, including regulatory tariffs, logistics costs, labor rates and commodities.

Operating expenses. The increase in Operating expenses was primarily driven by recurring operating expenses from recent acquisitions, an increase in employee headcount related to strategic initiatives, higher intangible amortization expenses, and higher variable costs given the increased sales volumes.

Other expense. The decrease in Other expense, net was primarily due to the $1.3 million loss on extinguishment of debt recorded in the second quarter of 2018 resulting from a $50.0 million voluntary prepayment of Term Loan debt that did not repeat in the second quarter of 2019.

Provision for income taxes. The effective income tax rates for the three months ended June 30, 2019 and 2018 were 23.4% and 25.3%, respectively. The decrease in the effective income tax rate in 2019 was primarily driven by a higher mix of domestic pre-tax income and additional stock compensation deductions compared to the prior year quarter.

Net income attributable to Generac Holdings Inc. The increase was primarily driven by higher operating earnings as outlined above and a lower effective tax rate during the current year quarter.

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment was $104.5 million, or 24.5% of net sales, as compared to $90.6 million, or 23.6% of net sales in the prior year quarter. Favorable sales mix, pricing initiatives and fixed operating cost leverage were partially offset by higher input costs, as well as increased employee costs and recurring operating expenses from recent acquisitions.

Adjusted EBITDA for the International segment, before deducting for non-controlling interests, was $7.4 million, or 6.3% of net sales, as compared to $11.6 million, or 10.2% of net sales, in the prior year. Unfavorable sales mix and decreased operating leverage contributed the decline.

Adjusted Net Income. Adjusted Net Income of $74.9 million for the three months ended June 30, 2019 increased 8.8% from $68.9 million for the three months ended June 30, 2018, due to the factors outlined above.

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

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Six months ended June 30, 2019 compared to the six months ended June 30, 2018

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

(U.S. Dollars in thousands)	Six Months Ended June 30, 2019	2018	$ Change	% Change
Net sales	$ 1,012,269	$ 897,672	$ 114,597	12.8%
Cost of goods sold	654,256	577,272	76,984	13.3%
Gross profit	358,013	320,400	37,613	11.7%
Operating expenses:				
Selling and service	99,598	92,889	6,709	7.2%
Research and development	31,303	24,469	6,834	27.9%
General and administrative	52,420	50,114	2,306	4.6%
Amortization of intangible assets	12,593	11,114	1,479	13.3%
Total operating expenses	195,914	178,586	17,328	9.7%
Income from operations	162,099	141,814	20,285	14.3%
Total other expense, net	(20,812)	(24,015)	3,203	-13.3%

Income before provision for income taxes	141,287	117,799	23,488	19.9%
Provision for income taxes	33,812	29,798	4,014	13.5%
Net income	107,475	88,001	19,474	22.1%
Net income attributable to noncontrolling interests	656	1,095	(439)	-40.1%
Net income attributable to Generac Holdings Inc.	$ 106,819	$ 86,906	$ 19,913	22.9%

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

	Net Sales Six Months Ended June 30,			
(U.S. Dollars in thousands)	2019	2018	$ Change	% Change
Domestic	$ 785,186	$ 686,355	$ 98,831	14.4%
International	227,083	211,317	15,766	7.5%
Total net sales	$ 1,012,269	$ 897,672	$ 114,597	12.8%

	Adjusted EBITDA Six Months Ended June 30,			
	2019	2018	$ Change	% Change
Domestic	$ 185,506	$ 156,077	$ 29,429	18.9%
International	13,508	17,934	(4,426)	-24.7%
Total Adjusted EBITDA	$ 199,014	$ 174,011	$ 25,003	14.4%

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

	Six Months Ended June 30,			
(U.S. Dollars in thousands)	2019	2018	$ Change	% Change
Residential products	$ 486,204	$ 436,872	$ 49,332	11.3%
Commercial & industrial products	439,552	390,753	48,799	12.5%
Other	86,513	70,047	16,466	23.5%
Total net sales	$ 1,012,269	$ 897,672	$ 114,597	12.8%

Net sales. The increase in Domestic sales for the six months ended June 30, 2019 was primarily due to strong growth in shipments of home standby generators, as well as strong C&I stationary generator shipments compared to the prior year period. These increases were partially offset by a decrease in sales of portable generators as the prior year benefitted from channel replenishment and elevated outage activity.

The increase in International sales for the six months ended June 30, 2019 was primarily due to continued market share gains and further execution of synergies, particularly in Europe, Middle East, China, and Brazil. This increase in sales was also driven by the Selmec and Captiva acquisitions, partially offset by an unfavorable foreign currency impact.

Overall, the net sales contribution from all non-annualized recent acquisitions to the six months ended June 30, 2019 was $27.2 million.

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Gross profit. Gross profit margin for the six months ended June 30, 2019 was 35.4% compared to 35.7% in the prior-year period. The decrease in gross profit margin was the result of a favorable sales mix shift towards higher margin home standby generator sales and price increases implemented since prior year, more than offset by the impact of recent acquisitions and the realization of higher input costs, including regulatory tariffs, logistics costs, labor rates, and commodities.

Operating expenses. The increase in Operating expenses was primarily driven by incremental variable operating expense on the strong sales growth, recurring operating expenses from recent acquisitions, an increase in employee headcount related to strategic initiatives and higher intangible amortization expenses.

Other expense. The decrease in Other expense, net was primarily due to the $1.3 million loss on extinguishment of debt recorded in the second quarter of 2018 resulting from a $50.0 million voluntary prepayment of Term Loan debt that did not repeat in the current year, as well as an increase in investment income.

Provision for income taxes. The effective income tax rates for the six months ended June 30, 2019 and 2018 were 23.9% and 25.3%, respectively. The decrease in the effective income tax rate in 2019 was primarily driven by a higher mix of domestic pre-tax income as well as additional stock compensation deductions and state tax credits compared to the prior year period.

Net income attributable to Generac Holdings Inc. The increase was primarily driven by higher operating earnings as outlined above and a lower effective tax rate recorded during the current year period.

Adjusted EBITDA. Adjusted EBITDA for the Domestic segment was $185.5 million, or 23.6% of net sales, as compared to $156.1 million in the prior year, or 22.7% of net sales. Adjusted EBITDA margin in the current year benefitted from favorable sales mix, pricing initiatives, and fixed operating cost leverage on the higher sales volumes. These favorable impacts were partially offset by higher input costs, increased employee costs and recurring operating expenses from recent acquisitions.

Adjusted EBITDA for the International segment, before deducting for non-controlling interests, was $13.5 million, or 5.9% of net sales, as compared to $17.9 million in the prior year, or 8.4% of net sales. The decrease in Adjusted EBITDA margin as compared to the prior year was primarily due to unfavorable sales mix, decreased operating leverage and higher input costs.

Adjusted Net Income. Adjusted Net Income of $131.5 million for the six months ended June 30, 2019 increased 14.3% from $115.0 million for the six months ended June 30, 2018, due to the factors outlined above partially offset by an increase in cash income tax expense.

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

Liquidity and Financial Condition

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

Our credit agreements originally provided for a $1.2 billion Term Loan and include a $300.0 million uncommitted incremental term loan facility. The Term Loan matures on May 31, 2023, and bears interest at rates based upon either a base rate plus an applicable margin of 0.75% or adjusted LIBOR rate plus an applicable margin of 1.75%, subject to a LIBOR floor of 0.75%. The Term Loan does not require an Excess Cash Flow payment if the Company's secured leverage ratio is maintained below 3.75 to 1.00 times. As of June 30, 2019, the Company's secured leverage ratio was 1.81 to 1.00 times, and the Company was in compliance with all covenants of the Term Loan. There are no financial maintenance covenants on the Term Loan.

Our credit agreements also provide for the $300.0 million ABL Facility. The maturity date of the ABL Facility is June 12, 2023. As of June 30, 2019, there were $26.4 million of borrowings outstanding and $273.2 million of availability under the ABL Facility, net of outstanding letters of credit. We are in compliance with all covenants of the ABL Facility as of June 30, 2019.

In August 2015, our Board of Directors approved a $200.0 million stock repurchase program, which we completed in the third quarter of 2016. In October 2016, our Board of Directors approved a new $250.0 million stock repurchase program, which expired in the fourth quarter of 2018. In September 2018, the Board of Directors approved another stock repurchase program, which commenced in October 2018, and under which we may repurchase an additional $250.0 million of common stock over 24 months from time to time; in amounts and at prices we deem appropriate, subject to market conditions and other considerations. During the six months ended June 30, 2018, we repurchased 560,000 shares of our common stock for $25.7 million. There were no share repurchases during the six months ended June 30, 2019. Since the inception of all programs, we have repurchased 8,676,706 shares of our common stock for $305.5 million, all funded with cash on hand.

See Note 12, "Credit Agreements" to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Long-term Liquidity

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

Cash Flow

Six months ended June 30, 2019 compared to the six months ended June 30, 2018

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

(U.S. Dollars in thousands)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	$ Change	% Change
Net cash provided by operating activities	$ 22,614	$ 79,657	$ (57,043)	-71.6%
Net cash used in investing activities	(145,872)	(82,127)	(63,745)	77.6%
Net cash provided by (used in) financing activities	8,158	(23,880)	32,038	-134.2%

The decrease in net cash provided by operating activities was driven by a variety of factors including higher working capital investments, timing of tax payments, as well as higher incentive compensation payments in the current year period partially offset by an increase in operating earnings as compared to the prior year period.

Net cash used in investing activities for the six months ended June 30, 2019 primarily represents cash payments of $112.9 million related to the acquisition of businesses and $34.4 million related to the purchase of property and equipment. Net cash used in investing activities for the six months ended June 30, 2018 primarily represents cash payments of $71.9 million related to the acquisition of businesses and $12.3 million for the purchase of property and equipment.

Net cash provided by financing activities for the six months ended June 30, 2019 primarily represents $35.8 million of cash proceeds from short-term borrowings partially offset by $26.3 million of debt repayments ($24.3 million of short-term borrowings and $2.0 million of long-term borrowings and finance lease obligations).

Net cash used in financing activities for the six months ended June 30, 2018 primarily represents $59.0 million of debt repayments ($50.8 million of long-term borrowings and finance lease obligations and $8.2 million of short-term borrowings) and $25.7 million cash used for the repurchase of our common stock. These payments were partially offset by $62.1 million of cash proceeds from borrowings ($50.0 million long-term and $12.1 million short-term).

Contractual Obligations

There have been no material changes to our contractual obligations since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

There have been no material changes to off-balance sheet arrangements since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

Critical Accounting Policies

There have been no material changes in our critical accounting policies since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2018, in preparing the financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that have an impact on the asset, liability, revenue and expense amounts reported. These estimates can also affect supplemental information disclosures of the Company, including information about contingencies, risk and financial condition. The Company believes, given current facts and circumstances, its estimates and assumptions are reasonable, adhere to U.S. GAAP, and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates and estimates may vary as new facts and circumstances arise. The Company makes routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property and equipment, prepaid expenses, product warranties and other reserves. Management believes the Company's most critical accounting estimates and assumptions are in the following areas: goodwill and other indefinite-lived intangible asset impairment assessment; business combinations and purchase accounting; defined benefit pension obligations and income taxes.

Non-GAAP Measures

Adjusted EBITDA

The computation of Adjusted EBITDA attributable to Generac Holdings Inc. is based on the definition of EBITDA contained in our credit agreement, as amended. To supplement our condensed consolidated financial statements presented in accordance with U.S. GAAP, we provide the computation of Adjusted EBITDA attributable to the Company, taking into account certain charges and gains that were recognized during the periods presented.

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

- for planning purposes, including the preparation of our annual operating budget and developing and refining our internal projections for future periods;
- to allocate resources to enhance the financial performance of our business;
- as a benchmark for the determination of the bonus component of compensation for our senior executives under our management incentive plan, as described further in our 2019 Proxy Statement;
- to evaluate the effectiveness of our business strategies and as a supplemental tool in evaluating our performance against our budget for each period; and
- in communications with our Board of Directors and investors concerning our financial performance.

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

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

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

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

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

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(U.S. Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Net income attributable to Generac Holdings Inc.	$ 61,958	$ 53,261	$ 106,819	$ 86,906
Net (loss) income attributable to noncontrolling interests	(252)	970	656	1,095
Net income	61,706	54,231	107,475	88,001
Interest expense	10,452	11,002	20,724	21,115
Depreciation and amortization	14,740	11,600	27,347	23,283
Provision for income taxes	18,827	18,382	33,812	29,798
Non-cash write-down and other adjustments (a)	1,726	1,316	326	2,622
Non-cash share-based compensation expense (b)	4,334	3,885	7,928	6,991
Loss on extinguishment of debt (c)	-	1,332	-	1,332
Transaction costs and credit facility fees (d)	413	441	1,699	703
Business optimization expenses (e)	73	29	242	167
Other	(385)	12	(539)	(1)
Adjusted EBITDA	111,886	102,230	199,014	174,011
Adjusted EBITDA attributable to noncontrolling interests	763	2,630	2,813	4,179
Adjusted EBITDA attributable to Generac Holdings Inc.	$ 111,123	$ 99,600	$ 196,201	$ 169,832

(a) Represents the following non-cash charges: transactional foreign currency gains/losses and certain purchase accounting related adjustments, gains/losses on disposals of assets and unrealized mark-to-market adjustments on commodity contracts. We believe that adjusting net income for these non-cash charges is useful for the following reasons:

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

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

(c) Represents the non-cash write-off of original issue discount and deferred financing costs due to a voluntary prepayment of Term Loan debt.

(d) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, together with certain fees relating to our senior secured credit facilities, such as administrative agent fees and credit facility commitment fees under our Term Loan and ABL Facility, which we believe to be akin to, or associated with, interest expense and whose inclusion in Adjusted EBITDA is therefore similar to the inclusion of interest expense in that calculation.

(e) Represents severance and other non-recurring restructuring charges related to the consolidation of certain of our facilities. These charges represent expenses that are not from our core operations and do not reflect our ongoing operations.

Adjusted Net Income

To further supplement our condensed consolidated financial statements in accordance with U.S. GAAP, we provide the computation of Adjusted Net Income attributable to the Company, which is defined as net income before noncontrolling interest and provision for income taxes adjusted for the following items: cash income tax expense, amortization of intangible assets, amortization of deferred financing costs and original issue discount related to our debt, intangible impairment charges, certain transaction costs and other purchase accounting adjustments, losses on extinguishment of debt, business optimization expenses, certain other non-cash gains and losses, and adjusted net income attributable to noncontrolling interests, as set forth in the reconciliation table below.

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

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

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

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

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

(U.S. Dollars in thousands, except share and per share data)	**Three Months Ended June 30, 2019**	**Three Months Ended June 30, 2018**	**Six Months Ended June 30, 2019**	**Six Months Ended June 30, 2018**
Net income attributable to Generac Holdings Inc.	$ 61,958	$ 53,261	$ 106,819	$ 86,906
Net (loss) income attributable to noncontrolling interests	(252)	970	656	1,095
Net income	61,706	54,231	107,475	88,001
Provision for income taxes	18,827	18,382	33,812	29,798
Income before provision for income taxes	80,533	72,613	141,287	117,799
Amortization of intangible assets	7,251	5,482	12,593	11,114
Amortization of deferred finance costs and original issue discount	1,199	1,190	2,376	2,367
Loss on extinguishment of debt	-	1,332	-	1,332
Transaction costs and other purchase accounting adjustments (a)	173	794	1,208	814
Business optimization expenses	73	29	242	167
Adjusted net income before provision for income taxes	89,229	81,440	157,706	133,593
Cash income tax expense (b)	(14,105)	(11,114)	(24,615)	(16,524)
Adjusted net income	75,124	70,326	133,091	117,069
Adjusted net income attributable to noncontrolling interests	222	1,383	1,696	2,044
Adjusted net income attributable to Generac Holdings Inc.	$ 74,902	$ 68,943	$ 131,395	$ 115,025
Adjusted net income per common share attributable to Generac Holdings Inc. - diluted:	$ 1.20	$ 1.11	$ 2.11	$ 1.85
Weighted average common shares outstanding - diluted:	62,405,863	62,054,447	62,349,030	62,259,712

(a) Represents transaction costs incurred directly in connection with any investment, as defined in our credit agreement, equity issuance or debt issuance or refinancing, and certain purchase accounting adjustments.

(b) Amounts for the three and six months ended June 30, 2019 are now based on an anticipated cash income tax rate of approximately 17% to 18% for the full year ended 2019. Amounts for the three and six months ended June 30, 2018 are based on an anticipated cash income tax rate of approximately 14% for the full year ended 2018. Cash income tax expense for the respective periods is based on the projected taxable income and corresponding cash tax rate for the full year after considering the effects of current and deferred income tax items, and is calculated for each respective period by applying the derived full year cash tax rate to the period's pretax income.

New Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Refer to Note 4, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements for a discussion of changes in commodity, currency and interest rate related risks and hedging activities. Otherwise, there have been no material changes in market risk from the information provided in Item 7A (Quantitative and Qualitative Disclosures About Market Risk) of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes during the three months ended June 30, 2019 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, employment matters and general commercial disputes arising in the ordinary course of our business. As of June 30, 2019, we believe there is no litigation pending that would have a material effect on our results of operations or financial condition.

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Item 1A. Risk Factors

There have been no material changes in our risk factors since the February 26, 2019 filing of our Annual Report on Form 10-K for the year ended December 31, 2018.

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

The following table summarizes the stock repurchase activity for the three months ended June 30, 2019, which consisted of the withholding of shares upon the vesting of restricted stock awards to pay related withholding taxes on behalf of the recipient:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Approximate Dollar Value Of Shares That May Yet Be Purchased Under The Plans Or Programs
04/01/2019 – 04/30/2019	88	$ 58.07	-	$ 250,000,000
05/01/2019 – 05/31/2019	389	$ 58.58	-	250,000,000
06/01/2019 – 06/30/2019	106	$ 59.72	-	$ 250,000,000
Total	583	$ 57.80		

For equity compensation plan information, please refer to our Annual Report on Form 10-K for the year ended December 31, 2018. For information on the Company's stock repurchase plans, refer to Note 13, "Stock Repurchase Program," to the condensed consolidated financial statements.

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Item 6. Exhibits

Exhibits Number	Description
10.1	Generac Holdings Inc. 2019 Equity Incentive Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A of the Company filed with the SEC on April 26, 2019).
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) related Notes to Condensed Consolidated Financial Statements.

* 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: August 6, 2019

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Aaron Jagdfeld, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Generac Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld

Title: *Chief Executive Officer*

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, York A. Ragen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Generac Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ York A. Ragen

Name: York A. Ragen

Title: *Chief Financial Officer*

Exhibit 32.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Generac Holdings Inc. (the “Company”), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2019 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019	/s/ Aaron Jagdfeld	
	Name:	Aaron Jagdfeld
	Title:	*Chief Executive Officer*

Exhibit 32.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of Generac Holdings Inc. (the "Company"), does hereby certify that to my knowledge:

1. the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Company's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2019 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ York A. Ragen

Name:	York A. Ragen
Title:	*Chief Financial Officer*