

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

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 formation)

S45 W29290 Hwy. 59, Waukesha, WI

(Address of principal executive offices)

20-5654756

(IRS Employer Identification No.)

53189

(Zip Code)

(262) 544-4811

(Registrant's telephone number, including area code)

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

Common Stock, \$0.01 par value

(Title of class)

New York Stock Exchange

(Name of exchange on which registered)

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$494,323,000 based upon the closing price reported for such date on the New York Stock Exchange.

As of March 5, 2012, 67,906,706 shares of registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2012 Annual Meeting of Stockholders (the "2012 Proxy Statement"), which will be filed by the registrant on or prior to 120 days following the end of the registrant's fiscal year ended December 31, 2011, are incorporated by reference into Part III of this Form 10-K.



**2011 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS**

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>2</u>
<u>Item 1A. Risk Factors</u>	<u>8</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>18</u>
<u>Item 2. Properties</u>	<u>18</u>
<u>Item 3. Legal Proceedings</u>	<u>19</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>19</u>
<u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>19</u>
<u>Item 6. Selected Financial Data</u>	<u>21</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>47</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>86</u>
<u>Item 9A. Controls and Procedures</u>	<u>87</u>
<u>Item 9B. Other Information</u>	<u>88</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>88</u>
<u>Item 11. Executive Compensation</u>	<u>88</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>88</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>88</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>88</u>
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>89</u>

PART I

Forward-Looking Statements

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

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

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

- *demand for our products;*
- *frequency of major power outages;*
- *availability, cost and quality of raw materials and key components used producing our products;*
- *the possibility that the expected synergies, efficiencies and cost savings of the acquisition of the Magnum Products business will not be realized, or will not be realized within the expected time period;*
- *the risk that the Magnum Products business will not be integrated successfully;*
- *competitive factors in the industry in which we operate;*
- *our dependence on our distribution network;*
- *our ability to invest in, develop or adapt to changing technologies and manufacturing techniques;*
- *our ability to adjust to operating as a public company;*
- *loss of our key management and employees;*
- *increase in liability claims; and*
- *changes in environmental, health and safety laws and regulations.*

[Table of Contents](#)

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

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

Item 1. Business

We are a leading designer and manufacturer of a wide range of generators and other engine powered products for the residential, light commercial, industrial and construction markets. We are the only significant market participant focused predominantly on these products, and we have one of the leading market positions in the power equipment markets in the United States and Canada. We design, manufacture, source and modify engines, alternators, automatic transfer switches and other components necessary for our products. Our products are fueled by natural gas, liquid propane, gasoline, diesel and Bi-Fuel™ and are available through a broad network of independent dealers, retailers, wholesalers, and equipment rental companies.

We have what we believe is an industry leading, multi-layered distribution network, and our products are available in thousands of outlets across the United States and Canada. We distribute our products through independent residential and industrial dealers, electrical wholesalers, national accounts, private label arrangements, retailers, catalogs, e-commerce merchants, equipment rental companies, equipment dealers and construction companies. We currently sell our products primarily in North America. We have a significant market share in the residential and light commercial generator markets, which we believe are currently under penetrated. We believe that our leading market position is largely attributable to our strategy of providing a broad product line of high-quality, innovative and affordable products through our extensive and multi-layered distribution network. In addition, through our acquisition of Magnum Products, we are a leading provider of light towers and mobile generators.

We own and operate four manufacturing plants and one distribution facility in Eagle, Wisconsin, Waukesha, Wisconsin, Berlin, Wisconsin and Whitewater, Wisconsin, totaling approximately 1,200,000 total square feet. We also maintain inventory warehouses in the United States that accommodate material storage and rapid response requirements of our customers.

History

Generac Holdings Inc. (Generac) is a Delaware corporation that was founded in 2006. Generac Power Systems, Inc., or Generac Power Systems, our principal operating subsidiary, is a Wisconsin corporation, which was founded in 1959 to market a line of affordable portable generators that offered superior performance and features. We expanded beyond portable generators in 1980 into the industrial market with the introduction of our first stationary generators that provided up to 200 kW. We entered the residential market in 1989 with a residential standby generator, and expanded our product development and global distribution system in the 1990s, forming a series of alliances that tripled our higher output generator net sales. In 1998, we sold our Generac® portable products business to the Beacon Group, a private equity firm, which eventually sold this business to Briggs & Stratton. Our growth accelerated in 2000 as we expanded our automatic residential standby generator product offering, implemented our multi-layered distribution philosophy, and introduced our quiet-running QT Series generators in 2005, accelerating our penetration in the commercial market. In 2008, we successfully expanded our position in the portable generator market after the expiration of our non-compete agreement with the Beacon Group entered into in connection with the aforementioned Beacon Group transaction. In late 2011, our subsidiary Magnum Power Products, LLC acquired the assets of the Magnum Products business (Magnum or Magnum Products) which is the number one light tower manufacturer in the U.S. and has a growing share of the mobile generator market. Today, we manufacture a full line of power products for a wide variety of applications and markets. Our success is built on engineering expertise, manufacturing excellence and our innovative approaches to the market.

CCMP transactions

In November 2006, affiliates of CCMP Capital Advisors, LLC, or CCMP, together with certain other investors and members of our management, purchased an aggregate of \$689 million of our equity capital. In addition, on November 10, 2006, Generac Power Systems borrowed an aggregate of \$1.38 billion, consisting of an initial drawdown of \$950 million under a \$1.1 billion first lien secured credit facility and \$430 million under a \$430 million second lien secured credit facility. With the proceeds from these equity and debt financings, together with cash on hand at Generac Power Systems, we (1) acquired all of the capital stock of Generac Power Systems and repaid certain pre-transaction indebtedness of Generac Power Systems for \$2.0 billion, (2) paid \$66 million in transaction costs related to the transaction and (3) retained \$3.0 million for general corporate purposes.

We refer to the foregoing transactions collectively as the “CCMP Transactions.”

Initial public offering and corporate reorganization

On February 17, 2010, we completed our initial public offering (IPO) of 18,750,000 shares of our common stock at a price of \$13.00 per share. In addition, on March 18, 2010, the underwriters exercised their option and purchased an additional 1,950,500 shares of our common stock from us. We received approximately \$224.1 million in net proceeds at the initial closing, and approximately \$23.8 million in net proceeds from the underwriters’ option exercise, after deducting the underwriting discount and total expenses related to the offering. The proceeds from the initial closing of the IPO were used entirely to pay down our second lien credit facility in full and to repay a portion of our first lien credit facility. Proceeds from the option exercise were used for general corporate purposes, including additional pre-payment of the first lien credit facility.

Our capitalization prior to the IPO consisted of Series A Preferred Stock, Class B Common Stock and Class A Common Stock. In connection with the IPO, we effected a corporate reorganization in which, after giving effect to a 3.294 for one reverse Class A Common Stock split, our Class B Common Stock and Series A Preferred Stock was converted into Class A Common Stock and our Class A Common Stock was then reclassified as common stock. Following the IPO, we have only one class of common stock outstanding. We refer to these transactions, as the “Corporate Reorganization.” For more information regarding our Corporate Reorganization, see “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations – Corporate reorganization.”

Our products

We design, engineer and manufacture generators with an output of between 800W and 9mW, as well as other engine powered products such as light towers, pumps and power washers. In the manufacturing process, we design, manufacture, source and modify engines, alternators, transfer switches and other components necessary to production. We classify our products into three classes based on similar range of power output geared for varying end customer uses: residential power products; commercial and industrial power products; and other products. The following summary outlines our portfolio of products, including their key attributes and customer applications.

Residential power products

Our automatic residential standby generators range in output from 6kW to 60kW, with manufacturer's suggested retail prices, or MSRPs, from approximately \$1,800 to \$15,000. They operate on either natural gas or liquid propane and are permanently installed with an automatic transfer switch, which we also manufacture. Air-cooled residential standby generators range in outputs from 6kW to 20kW, are available in steel and aluminum enclosures and serve as an emergency backup for small to medium homes. Liquid-cooled generators serve as emergency backup for larger homes and small businesses and range in output from 20kW to 60kW. Liquid-cooled brands include the Guardian® Series and the premium QuietSource® Series, which have a quiet, low-speed engine and a standard aluminum enclosure.

We provide portable generators fueled by gasoline that range in size from 800W to 17,500W. These products serve as an emergency home backup and are used for construction and recreational purposes. Following the expiration of a non-compete agreement in 2007, we expanded our portable product offering to introduce portable generators below 12,500W. We currently have four portable product lines: the GP series, targeted at homeowners, ranging from 1,850W to 17,500W; the XG series, targeted at the premium homeowner markets, ranging from 4,000 to 10,000W; the XP series, targeted at the professional contractor market, ranging from 4,000 to 8,000W; and the iX series, targeted at the recreational market, ranging from 800W to 2,000W. With our acquisition of Gen-Tran in February 2012, we now offer manual transfer switches to supplement our portable generator product offering.

Residential power products comprised 63.0%, 62.9% and 62.0%, respectively, of total net sales in 2009, 2010 and 2011.

Industrial and commercial power products

Our light-commercial standby generators include a full range of affordable generators from 22kW to 150kW and related transfer switches, providing three-phase power sufficient for most small and mid-sized businesses including grocery stores, convenience stores, restaurants, gas stations, pharmacies, retail banks and small health care facilities. Our light-commercial generators run on natural gas or liquid propane thereby eliminating the fuel spillages, spoilage, environmental or odor concerns common with traditional diesel units.

We manufacture a broad line of standard and configured standby generators and related transfer switches for industrial applications. Our single-engine industrial generators range in output from 10kW to 600kW with our Modular Power System (MPS) technology extending our product range up to 9mW. We offer four fuel options including diesel, natural gas, liquid propane or Bi-Fuel™. Bi-Fuel™ generators operate on a combination of both diesel and natural gas to allow our customers the advantage of multiple fuel sources and extended run times. These units are primarily used as emergency backup for large healthcare, telecom, datacom, commercial office, municipal and manufacturing customers.

Our MPS technology combines the power of several smaller generators to produce the output of a larger generator, providing our customers with redundancy and scalability in a cost-effective manner. For larger industrial applications, our MPS products offer customers an efficient, affordable way to scale their standby power needs. By offering a series of smaller Generac generators integrated with Generac's proprietary PowerManager control system, we provide a lower cost alternative to traditional large, single-engine generators. The MPS product line also offers superior reliability given its built-in redundancy which allows individual units to be taken off-line for routine maintenance while retaining coverage for critical circuits.

We provide the telecommunications market our full range of generator systems, ranging from 20kW air-cooled generators to 3mW MPS.

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

Industrial and commercial power products comprised 31.9%, 31.0% and 31.6%, respectively, of total net sales in 2009, 2010 and 2011.

Other power products

We sell aftermarket service parts to our dealers and proprietary engines to third-party original equipment manufacturers, or OEMs. We also sell RV generators, which are available in gasoline, liquid propane and diesel fuel models, directly to OEMs as well as aftermarket dealers.

Other power products comprise 5.1%, 6.1% and 6.4%, respectively, of total net sales in 2009, 2010 and 2011.

Distribution channels and customers

We distribute our product through several channels to increase awareness of our product categories and the Generac® and Magnum® brands, and to ensure our products reach a broad customer base. This distribution network includes independent residential and industrial dealers, wholesalers, national accounts, private label arrangements, retailers, catalogs, e-commerce merchants, equipment rental companies, equipment dealers and construction companies. We believe our distribution network is a competitive advantage that has strengthened over the last decade by expanding our network from our base of industrial dealers to include other channels of distribution as product offerings have increased. Our network is well balanced with no single sales channel providing more than 25% of our sales and no customer providing more than 8% of our sales in 2011.

[Table of Contents](#)

Our dealer network, which is located principally in the United States and Canada, is the industry's largest network of independent generator contractors.

Our residential/commercial dealer network sells, installs and services our residential and light-commercial products to end users. We have developed a number of proprietary dealer management programs to evaluate, manage and incentivize our dealers, which we believe has an important impact on the high level of customer service we provide to end customers. These programs include both technical and sales training, under which we train new and existing dealers about our products, service and installation. We regularly perform market analyses to determine if a given market is either under-served or has poor residential dealer representation. Within these locations, we selectively add distribution or invest resources in existing dealer support and training to improve dealer performance.

Our industrial dealer network provides industrial and commercial end-users with on-going, local and nationwide product support. Our industrial dealers maintain the local relationships with commercial electrical contractors, specifying engineers and national account regional buying offices. Our sales group works in conjunction with our industrial dealers to ensure that national accounts receive engineering support, competitive pricing and nationwide service. We promote our industrial generators through the use of product demonstrations, specifying engineer education events, dealer forums and training. In recent years, we have been particularly focused on expanding our dealer network in Latin America in order to expand our international sales opportunities.

Our wholesaler network consists of selling branches of both national and local distribution houses for electrical and HVAC products. Our wholesalers distribute our residential and light-commercial generators and are a key introduction to the standby generator category for electrical and HVAC contractors who may not be Generac dealers.

On a selective basis, we have established private label and licensing arrangements with third party partners to provide residential, light-commercial and industrial generators. The partners include leading home equipment, electrical equipment and construction machinery companies, each of which provides access to incremental channels of distribution for our products. We have agreements in place with these partners having terms of between three and four years and further establishing additional terms and conditions of these arrangements.

Our retail distribution network includes thousands of locations and includes regional and national home improvement chains, retailers, clubs, buying groups and farm supply stores. These physical retail locations are supplemented by a number of catalogue and e-commerce retailers. This network primarily sells our residential standby, portable and light-commercial generators. In some cases, we have worked with our retail partners to create installation programs using our residential dealers to support the sale and installation of standby generator products sold at retail. We also use a combination of display units and advertising through our retail accounts to promote awareness for our products.

The distribution for our mobile products includes international, national and regional equipment rental companies, equipment dealers and construction companies.

Additionally, we sell certain generators and engines directly to OEM manufacturers and after-market dealers for use in the lawn and garden and RV markets.

Manufacturing

Our excellence in manufacturing reflects our philosophy of high standards, continuous improvement and commitment to quality. Our facilities showcase our advanced manufacturing techniques and demonstrate the effectiveness of lean manufacturing.

We continually seek to reduce manufacturing costs while improving product quality. We deliver an affordable product to our customers through our value engineering philosophy, our strategic foreign sourcing, our scale, and adherence to lean manufacturing principles. We believe we have sufficient capacity to achieve our business goals for the near term.

Our product quality is essential to maintaining a leading market position. Incoming shipments from our suppliers are tested to ensure engineering specifications are met. Purchased components are tested for quality at the supplier's factory and prior to entering production lines and are continuously tested throughout the manufacturing process. Internal product and production audits are performed to ensure a reliable product and process. We test finished products under a variety of simulated conditions at each of our manufacturing facilities.

Research and development and intellectual property

Our primary focus on generators and engine powered equipment drives technological innovation, specialized engineering and manufacturing competencies. Research and development is a core competency and includes a staff of over 150 engineers working on numerous active projects. Our sponsored research and development expense was \$10.8 million, \$14.7 million and \$16.5 million for the years ended December 2009, 2010 and 2011, respectively. Research and development is conducted at each of our manufacturing facilities and additionally at our technical center in Suzhou, China with dedicated teams for each product line. Research and development is focused on developing new technologies and product enhancements as well as maintaining product competitiveness by improving manufacturing costs, safety characteristics, reliability and performance while ensuring compliance with governmental standards. We have had over 30 years of experience using natural gas engines and have developed specific expertise with fuel systems and emissions technology. In the residential and light commercial markets, we have developed proprietary engines, cooling packages, controls, fuel systems and emissions systems. We believe that our expertise in engine powered equipment gives us the capability to develop new products that will allow continued diversification in our end markets.

We rely on a combination of patents and trademarks to establish and protect our proprietary rights. Our commitment to research and development has resulted in a portfolio of approximately 90 U.S. and international patents and patent applications. Our patents expire between 2016 and 2028 and protect certain features and technologies we have developed for use in our products including fuel systems, air flow, electronics and controls, noise reduction and air-cooled engines. U.S. trademark registrations generally have a perpetual duration if they are properly maintained and renewed. New U.S. patents that are issued generally have a life of 20 years from the date the patent application is initially filed. We believe the existence of these patents and trademarks, along with our ongoing processes to register additional patents and trademarks, protect our intellectual property rights and enhance our competitive position. We also use proprietary manufacturing processes that require customized equipment.

Suppliers of raw materials

Our primary raw material inputs are steel, copper and aluminum, all of which are purchased from third parties and, in many cases, as part of machined or manufactured components. We have developed an extensive network of reliable, low-cost suppliers in the United States and abroad. Our strategic global sourcing function continuously evaluates the cost structure of our products and capabilities of our supply chain, and sources components accordingly based on this evaluation. In 2011, we sourced more than half of our components from outside the United States.

Competition

The market for onsite standby generators is competitive. We face competition from a variety of large diversified industrial companies as well as smaller generator manufacturers abroad. However, most of the traditional participants in the standby generator market compete on a more specialized basis, focused on specific applications within their larger diversified product mix. We are the only significant market participant focused predominantly on standby and portable generators with broad capabilities across the residential, industrial and light-commercial generator markets. We believe that our engineering capabilities and core focus on generators provide us with manufacturing flexibility and enable us to maintain a first-mover advantage over our competition for product innovation. We also believe our broad product offering and diverse distribution model provide for additional advantages as well.

In the market for standby commercial and industrial generators, our primary competitors are Caterpillar, Cummins, Kohler and MTU, most of which focus on the market for diesel generators as they are also diesel engine manufacturers. In the market for residential standby generators, our primary competitors include Briggs & Stratton, Cummins (Onan division) and Kohler, which also have broad operations in other manufacturing businesses. In the portable generator market, our primary competitors include Briggs & Stratton, Honda and Techtronics International (TTI), along with a number of smaller domestic and foreign competitors. In the market for mobile generators, our primary competitors are Doosan/IR, Aggreko, Caterpillar and Wacker. Our competitors in the market for light towers include Terex, Allmand and Wacker.

There are a number of other standby generator manufacturers located outside North America, but most supply their products mainly to their respective regional markets. In a continuously evolving sector, we believe our size and broad capabilities make us well positioned to remain competitive.

We compete primarily on the basis of brand reputation, quality, reliability, pricing, innovative features, breadth of product and product availability.

Employees

As of December 31, 2011, we had 2,223 employees (2,021 full time and 202 part-time and temporary employees). Of those, 1,364 employees were directly involved in manufacturing at our manufacturing facilities.

We have had an “open shop” bargaining agreement for the past 45 years. Our current agreement is with the Communication Workers of America, Local 4603. The current agreement, which expires October 17, 2016, covers our Waukesha and Eagle facilities. Currently, less than 2% of our workforce is a member of a labor union. Our facilities in Whitewater, Wisconsin and Berlin, Wisconsin are not unionized.

Regulation, including environmental matters

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

Our products are regulated by the U.S. Environmental Protection Agency (EPA), California Air Resources Board (CARB) and various other state and local air quality management districts. These governing bodies continue to pass regulations that require us to meet more stringent emission standards, and all of our engines and engine-driven products are regulated within the United States and its territories. Other countries have various degrees of regulation depending upon product application and fuel types. New regulations could require us to redesign our products and could affect market growth for our products.

Segment information

We refer you to Note 2, “Segment Reporting,” of our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for information about our business segment and geographic areas.

Executive officers

The following table sets forth information regarding our executive officers:

Name	Age	Position
Aaron P. Jagdfeld	40	Chief Executive Officer and Director
York A. Ragen	40	Chief Financial Officer
Dawn A. Tabat	59	Chief Operating Officer
Terrence J. Dolan	46	Executive Vice President, Industrial Products
Russell S. Minick	51	Executive Vice President, Residential Products
Allen A. Gillette	55	Senior Vice President, Engineering
Roger W. Schaus, Jr.	57	Senior Vice President, Service Operations
Roger F. Pascavis	51	Senior Vice President, Operations

Aaron P. Jagdfeld has served as our Chief Executive Officer since September 2008 and as a director since November 2006. Prior to becoming Chief Executive Officer, Mr. Jagdfeld worked for Generac for 15 years. He began his career in the finance department in 1994 and became our Chief Financial Officer in 2002. In 2007, he was appointed president and was responsible for sales, marketing, engineering and product development. Prior to joining Generac, Mr. Jagdfeld worked in the audit practice of the Milwaukee, Wisconsin office of Deloitte and Touche. Mr. Jagdfeld holds a Bachelor of Business Administration in Accounting from the University of Wisconsin-Whitewater.

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

Dawn A. Tabat has served as our Chief Operating Officer since 2002. Ms. Tabat joined Generac in 1972 and served as Personnel Manager and Personnel Director before being promoted to Vice President of Human Resources in 1992. During this period, Ms. Tabat was responsible for creating the human resource function within Generac, including recruiting, compensation, training and workforce relations. In her current position, Ms. Tabat oversees manufacturing, logistics, global supply chain, quality, safety and information services.

Terrence J. Dolan began serving as our Executive Vice President of Industrial Products in October 2011. Prior to becoming Executive Vice President of Industrial Products, he served as our Senior Vice President of Sales from January 2010 to October 2011. Prior to joining Generac, Mr. Dolan was Senior Vice President of Business Development and Marketing at Boart Longyear from 2007 to 2008, Vice President of Sales and Marketing at Ingersoll Rand from 2002 to 2007, and Director of Strategic Accounts at Case Corporation from 1991 to 2001. Mr. Dolan holds a B.A. in Management and Communications from Concordia University.

Russell S. Minick joined Generac in August 2011, and was named Executive Vice President of Residential Products in October 2011. Prior to joining Generac, Mr. Minick was President & CEO of Home Care Products for Electrolux from 2006 to 2011, President of The Gunlocke Company at HNI Corporation from 2003 to 2006, Senior Vice President of Sales, Marketing and Product Development at True Temper Sports from 2002 to 2003, and General Manager of Extended Warranty Operations for Ford Motor Company from 1998 to 2002. Mr. Minick is a graduate of the University of Northern Iowa, and holds a degree in marketing.

Allen A. Gillette is our Senior Vice President of Engineering. Mr. Gillette joined Generac in 1998 and has served as Engineering Manager, Director of Engineering and Vice President of Engineering. Prior to joining Generac, Mr. Gillette was Manager of Engineering at Transamerica Delaval Enterprise Division, Chief Engineer—High-Speed Engines at Ajax-Superior Division and Manager of Design & Development, Cooper-Bessemer Reciprocating Products Division. Mr. Gillette holds an M.S. in Mechanical Engineering from Purdue University and a B.S. in Mechanical Engineering from Gonzaga University.

Roger W. Schaus, Jr. serves as our Senior Vice President of Service Operations. Mr. Schaus joined Generac in 1988 and has served as Director of Manufacturing Services, Vice President of Manufacturing Services and Senior Vice President of Operations. Prior to joining Generac, Mr. Schaus was a Manufacturing Area Manager for Harley Davidson Motor Company in Wauwatosa, Wisconsin and a Plant Manager for Custom Products in Menomonee Falls, Wisconsin. Mr. Schaus holds a B.S. in Agricultural Economics from the University of Wisconsin, Madison.

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

Item 1A. Risk Factors

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

Risk factors related to our business and industry

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

Sales of our products are subject to consumer buying patterns, and demand for our products is affected by power outage events caused by thunderstorms, hurricanes, ice storms, blackouts and other grid reliability issues. The impact of these outage events on our sales can vary depending on the location and severity of the outages. Sustained periods without major power disruptions can lead to reduced consumer awareness of the benefits of standby and portable generator products and can result in reduced sales growth rates and excess inventory. The lack of major power-outage events can affect our net sales in the years following a given storm season. Unpredictable fluctuations in demand are therefore part of managing our business, and these fluctuations could have an adverse effect on our net sales and profits. Despite their unpredictable nature, we believe major power outages create awareness and accelerate adoption for our home standby products.

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we cannot be certain that we do not or will not infringe third parties' intellectual property rights. Any such claim, even if it is without merit, may be expensive and time-consuming to defend, subject us to damages, cause us to cease making, using or selling certain products that incorporate the disputed intellectual property, require us to redesign our products, divert management time and attention and/or require us to enter into costly royalty or licensing arrangements. Furthermore, in connection with our sale of Generac Portable Products to the Beacon Group in 1998, we granted the Beacon Group an exclusive perpetual license for the use of the "Generac Portable Products" trademark in connection with the manufacture and sale of certain engine driven consumer products. This perpetual license was eventually transferred to Briggs and Stratton (Briggs) when the Beacon Group sold that business to Briggs. Currently, this trademark is not being used in commerce. However, in the event that the Beacon Group or Briggs use this trademark in the future, we could suffer competitive confusion and our business could be negatively impacted.

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

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

Our products are subject to substantial government regulation.

Our products are subject to extensive statutory and regulatory requirements governing, among other things, emissions and noise, including standards imposed by the federal Environmental Protection Agency, or EPA, state regulatory agencies, such as CARB, and other regulatory agencies around the world. These laws are constantly evolving and many are becoming increasingly stringent. Changes in applicable laws or regulations, or in the enforcement thereof, could require us to redesign our products and could adversely affect our business or financial condition in the future. Developing and marketing products to meet such new requirements could result in substantial additional costs that may be difficult to recover in some markets. In some cases, we may be required to modify our projects or develop new products to comply with new regulations, particularly those relating to air emissions. For example, we were required to modify our spark-ignited air-cooled gaseous engines to comply with the 2011 EPA and CARB regulations, as well as the continued implementation of Tier 4 nonroad diesel engine changes associated with the Magnum acquisition. Typically, additional costs associated with significant compliance modifications are passed on to the market. While we have been able to meet previous deadlines, failure to comply with other existing and future regulatory standards could adversely affect our position in the markets we serve.

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

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

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

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

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

We may from time to time experience union organizing activities in our non-union facilities. Disputes with the current labor union or new union organizing activities could lead to work slowdowns or stoppages and make it difficult or impossible for us to meet scheduled delivery times for product shipments to our customers, which could result in loss of business. In addition, union activity could result in higher labor costs, which could harm our financial condition, results of operations and competitive position.

We may experience material disruptions to our manufacturing operations.

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

- equipment or information technology infrastructure failure;

[Table of Contents](#)

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

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

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

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

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

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

As a U.S. corporation that sources components in foreign countries, we are subject to the Foreign Corrupt Practices Act. A determination that we violated this act may affect our business and operations adversely.

As a U.S. corporation, we are subject to the regulations imposed by the U.S. Foreign Corrupt Practices Act, or the FCPA, which generally prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business. Any determination that we have violated the FCPA could have a material adverse effect on our financial position, operating results and cash flows.

We have significant tax assets, usage of which may be subject to limitations in the future.

As of December 31, 2011, we had approximately \$127.1 million of net operating loss carryforwards for U.S. federal income tax purposes. Any subsequent accumulations of common stock ownership leading to a change of control under Section 382 of the U.S. Internal Revenue Code of 1986, including through sales of stock by large stockholders, all of which are outside of our control, could limit and defer our ability to utilize our net operating loss carryforwards to offset future federal income tax liabilities.

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

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Indefinite-lived intangibles are comprised of certain trade names. At December 31, 2011, goodwill and other indefinite-lived intangibles totaled \$695.9 million, most of which arose from the CCMP Transactions. We review goodwill and other intangibles at least annually for impairment and any excess in carrying value over the estimated fair value is charged to the results of operations. A reduction in net income resulting from the write-down or impairment of goodwill or indefinite-lived intangibles, such as the \$9.4 million non-cash charge recorded in the fourth quarter of 2011 primarily related to the write down of a certain trade name as we strategically transition to the Generac brand, could have a material adverse effect on our financial statements.

Goodwill and identifiable intangible assets are recorded at fair value on the date of acquisition. In accordance with FASB ASC (Accounting Standards Codification) Topic 350-20, goodwill and indefinite lived intangibles are reviewed at least annually for impairment and definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Future impairment may result from, among other things, deterioration in the performance of the acquired business or product line, adverse market conditions and changes in the competitive landscape, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business or product line, and a variety of other circumstances. The amount of any impairment is recorded as a charge to the statement of operations. We may never realize the full value of our intangible assets. Any future determination requiring the write-off of a significant portion of intangible assets would have an adverse effect on our financial condition and results of operations. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" for details.

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

We may require additional financing to expand our business. Financing may not be available to us or may be available to us only on terms that are not favorable. The terms of our senior secured credit facilities limit our ability to incur additional debt. In addition, economic conditions, including a downturn in the credit markets, could impact our ability to finance our growth on acceptable terms or at all. If we are unable to raise additional funds or obtain capital on acceptable terms, we may have to delay, modify or abandon some or all of our growth strategies. In February 2012, we completed the planned refinancing of our former credit facility, and the new credit facility is comprised of a \$150 million unfunded Revolver, a \$325 million Term Loan A and \$250 million Term Loan B. The Revolver and Term Loan A both have a five (5) year term, with interest payable on a leveraged-based pricing grid starting at LIBOR plus 2.25%. The Term Loan B matures in seven (7) years and accrues interest at LIBOR plus 2.75% with a LIBOR floor of 1.0%. For more information regarding the refinance of our credit facility see "Item 8 – Financial Statements and Supplementary Data – "16. Subsequent Events." In the future, if we are unable to refinance such facilities on acceptable terms, our liquidity could be adversely affected.

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

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

We may not realize all of the anticipated benefits of our acquisition of the Magnum Products business or those benefits may take longer to realize than expected. We may also encounter significant unexpected difficulties in integrating the two businesses.

Our ability to realize the anticipated benefits of the Magnum Products acquisition, which was consummated on October 3, 2011, will depend, to a large extent, on our ability to integrate the Magnum Products business with our business. The combination of two independent businesses is a complex, costly and time-consuming process. As a result, we will be required to devote significant management attention and resources to integrating the business practices and operations of the Magnum Products business with ours. The integration process may disrupt our business and, if implemented ineffectively, would preclude realization of the full benefits expected by us. Our failure to meet the challenges involved in integrating the Magnum Products business into our existing operations or otherwise to realize the anticipated benefits of the transaction could cause an interruption of, or a loss of momentum in, our activities and could adversely affect our results of operations.

In addition, the overall integration of the Magnum Products business may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customer relationships, and diversion of management's attention, and may cause our stock price to decline.

The difficulties of combining the operations of the companies include, among others:

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

- making any necessary modifications to internal financial control standards to comply with the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder.

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

Risks related to our common stock

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

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

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

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

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

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

Risks related to our capital structure

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

We have a significant amount of indebtedness. As of December 31, 2011, we had total indebtedness of \$597.9 million. As of February 9, 2012 our total indebtedness was further reduced to \$575.0 million. While we reduced this amount of debt during 2010, 2011 and 2012 through the use of the proceeds of our IPO and of cash on hand, including an additional prepayment of debt of \$74.2 million in December of 2010, \$24.7 million in April of 2011, \$34.6 million in December of 2011 and \$22.9 million in February 2012 (as discussed elsewhere in this report under “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations”), we still have a significant amount of indebtedness. Our significant level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. Our significant indebtedness, combined with our lease and other financial obligations and contractual commitments could have other important consequences. For example, it could:

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

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

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

Our former senior secured credit facilities contained, and any future indebtedness of ours or our subsidiaries would likely contain, a number of restrictive covenants that impose significant operating and financial restrictions on us and our subsidiaries, including restrictions on our ability to engage in acts that may be in our best long-term interests. Our new senior secured credit facilities entered into on February 9, 2012 include certain financial covenants.

The new credit facility requires Generac Power Systems to maintain a maximum leverage ratio (as defined in the senior secured credit facility) of 4.00 to 1.00 from the periods June 30, 2012 to September 30, 2012, and 3.75 to 1.00 thereafter. As of December 31, 2011, Generac Power Systems' leverage ratio was 2.83. In addition, the new credit facility requires Generac Power Systems to maintain a minimum interest coverage ratio (as defined in the senior secured credit facility) of 2.50 to 1.00 from June 30, 2012 to September 30, 2012, 2.75 to 1.00 from December 31, 2012 to June 30, 2013, 3.00 to 1.00 from September 30, 2013 to June 30, 2014 and 3.25 to 1.00 thereafter. As of December 31, 2011, Generac Power Systems' interest coverage ratio was 8.55. Failure to comply with such covenants would result in an event of default under our new senior secured credit facilities unless waived by our lenders.

Our new senior secured credit facilities require us to use a portion of excess cash flow and proceeds of certain asset sales that are not reinvested in our business and other dispositions to repay indebtedness under our senior secured credit facilities.

Our new senior secured credit facilities also include covenants restricting, among other things, our ability to:

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

The operating and financial restrictions and covenants in our new senior secured credit facilities and any future financing agreements may adversely affect our ability to finance future operations or capital needs or to engage in other business activities. A breach of any of the restrictive covenants in our new senior secured credit facilities would result in a default under our new senior secured credit facilities. If any such default occurs, the lenders under our new senior secured credit facilities may elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable, or enforce their security interest, any of which would result in an event of default. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings.

Our principal stockholder continues to have substantial control over us.

Affiliates of CCMP collectively beneficially own approximately 59.0% of our outstanding common stock. As a consequence, CCMP or its affiliates are able to exert a significant degree of influence or actual control over our management and affairs and will control matters requiring stockholder approval, including the election of directors, a merger, consolidation or sale of all or substantially all of our assets, and any other significant transaction. The interests of this stockholder may not always coincide with our interests or the interests of our other stockholders. For instance, this concentration of ownership may have the effect of delaying or preventing a change in control of us otherwise favored by our other stockholders and could depress our stock price.

Because affiliates of CCMP control more than 50% of the voting power of our common stock, we are a “controlled company” within the meaning of the NYSE’s Listed Company Manual. Under the NYSE’s Listed Company Manual, a controlled company may elect not to comply with certain NYSE corporate governance requirements, including requirements that: (1) a majority of the board of directors consist of independent directors; (2) compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee that is composed entirely of independent directors; and (3) director nominees be selected or recommended by a majority of the independent directors or by a nominating committee composed solely of independent directors. Because we have taken advantage of the controlled company exemption to certain NYSE corporate governance requirements, our stockholders do not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

Conflicts of interest may arise because some of our directors are principals of our principal stockholder.

Representatives of CCMP and its affiliates occupy seats on our board of directors. CCMP or its affiliates could invest in entities that directly or indirectly compete with us or companies in which CCMP or its affiliates are currently invested may already compete with us. As a result of these relationships, when conflicts arise between the interests of CCMP or its affiliates and the interests of our stockholders, these directors may not be disinterested. The representatives of CCMP and its affiliates on our board of directors, by the terms of our amended and restated certificate of incorporation, are not required to offer us any transaction opportunity of which they become aware and could take any such opportunity for themselves or offer it to other companies in which they have an investment, unless such opportunity is expressly offered to them solely in their capacity as our directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own and operate manufacturing and distribution facilities located in Eagle, Wisconsin, Waukesha, Wisconsin, Whitewater, Wisconsin and Berlin, Wisconsin, which total approximately 1.2 million square feet. We also operate a dealer training center at our Eagle, Wisconsin facility, which allows us to train new industrial and residential dealers on the service and installation of our products and provide existing dealers with training on product innovations. We also have inventory warehouses in the United States that accommodate material storage and rapid response requirements of our customers.

The following table shows the location and activities of our operations:

Location	Owned / Leased	Square Footage	Activities
Waukesha, WI	Owned	307,250	Corporate headquarters and manufacturing of liquid-cooled generators and transfer switches and storage
Eagle, WI	Owned	236,000	Manufacturing of liquid-cooled generators and metal fabrication
Eagle, WI	Owned	6,000	Training facility
Whitewater, WI	Owned	295,000	Manufacturing of vertically integrated engines and generators
Berlin, WI	Owned	129,000	Manufacturing of mobile generators, light towers, pumps and metal fabrication
Berlin, WI	Leased	122,500	R&D, shipping, storage facilities, manufacturing
Whitewater, WI	Owned	196,000	Distribution center
Fort Atkinson, WI	Leased	183,640	Storage facility
Edgerton, WI	Leased	242,100	Storage facility
Maquoketa, IA	Owned	137,000	Inventory warehouse and rental property
Nor Cross, GA	Leased	12,555	Dealer facility, sales, distribution, training
Cooler, GA	Leased	2,500	Dealer facility, sales, distribution, training
Alpharetta, GA	Leased	13,000	Manufacturing, sales, distribution, light assembly and packaging

As of December 31, 2011, substantially all of our owned properties are subject to mortgages under our senior secured credit facilities.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

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

Price Range of Common Stock

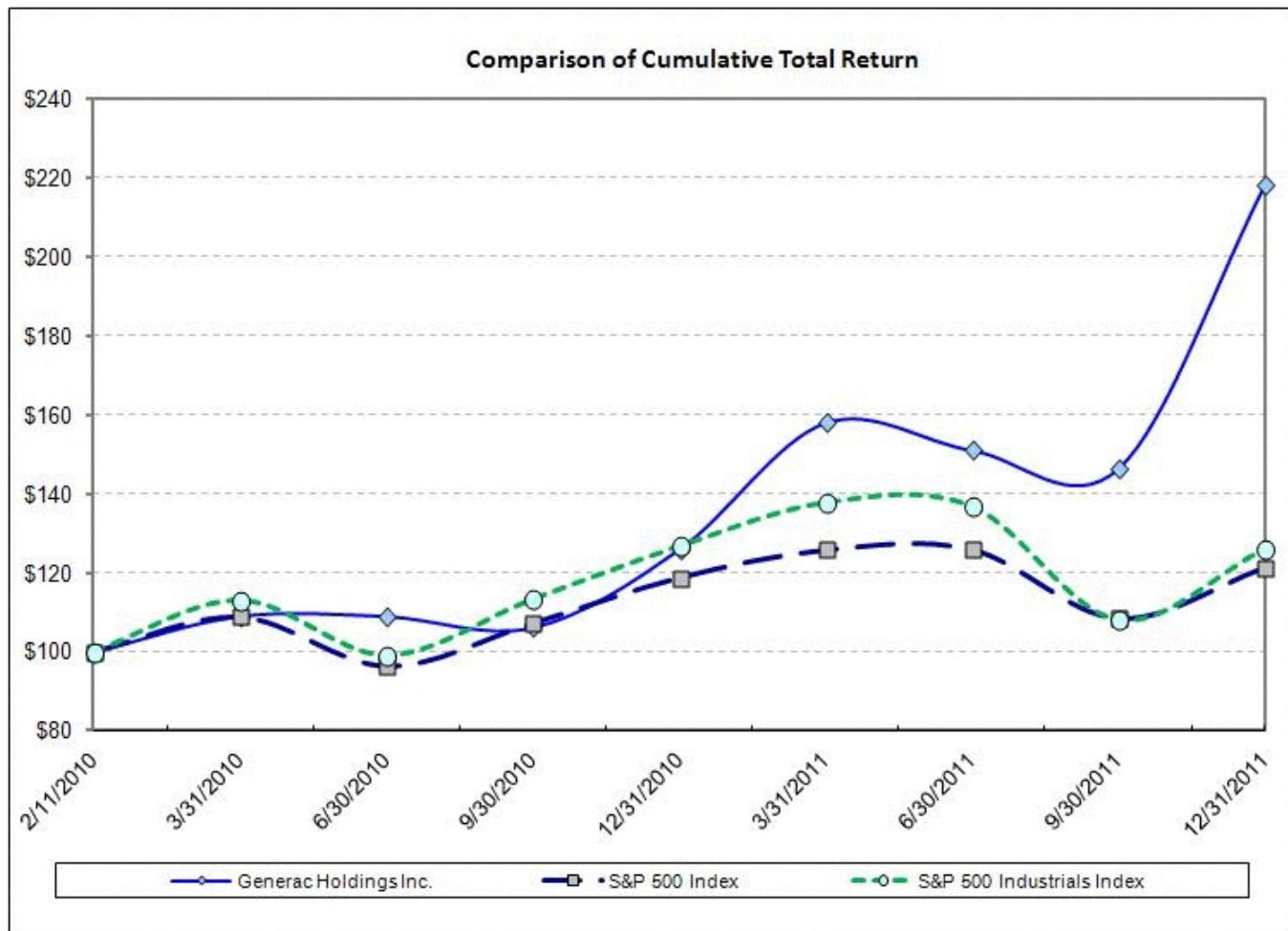
Shares of our common stock are traded on the NYSE under the symbol “GNRC.” The following table sets forth the high and low sales prices reported on the NYSE for our common stock by fiscal quarter during 2011 and 2010, respectively.

	2011	
	High	Low
Fourth Quarter	\$ 29.06	\$ 18.29
Third Quarter	\$ 21.41	\$ 15.41
Second Quarter	\$ 21.10	\$ 17.10
First Quarter	\$ 20.85	\$ 14.72

	2010	
	High	Low
Fourth Quarter	\$ 16.51	\$ 13.04
Third Quarter	\$ 15.08	\$ 11.99
Second Quarter	\$ 15.40	\$ 10.65
First Quarter (beginning February 11, 2010)	\$ 15.40	\$ 12.84

Stock Performance Graph

The line graph below compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor's S&P 500 Index and S&P 500 Industrials Index for the year ended December 31, 2011. The graph and table assume that \$100 was invested on February 11, 2010 (first day of trading) in each of our common stock, the S&P 500 Index, S&P 500 Industrials Index, and that all dividends were reinvested. Cumulative total stockholder returns for our common stock, the S&P 500 Index, and the S&P 500 Industrials Index are based on our fiscal year.



ASSUMES \$100 INVESTED ON FEBRUARY 11, 2010
 ASSUMES DIVIDEND REINVESTED
 FISCAL YEAR ENDING DECEMBER 31, 2011

Company/ Market/ Peer Group	2/11/2010	3/31/2010	6/30/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011
Generac Holdings Inc.	\$ 100.00	\$ 109.11	\$ 109.11	\$ 106.23	\$ 125.93	\$ 158.02	\$ 151.09	\$ 146.50	\$ 218.30
S&P 500 Index	\$ 100.00	\$ 108.73	\$ 96.31	\$ 107.18	\$ 118.71	\$ 125.73	\$ 125.85	\$ 108.40	\$ 121.21
S&P 500 Industrials Index	\$ 100.00	\$ 113.00	\$ 99.09	\$ 113.27	\$ 126.65	\$ 137.74	\$ 136.82	\$ 108.06	\$ 125.90

Holders

As of February 17, 2012, there were approximately 107 registered holders of record of Generac's common stock. A substantially greater number of holders of Generac common stock are "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

Dividends

We did not declare or pay cash dividends in 2011. We currently do not have plans to pay any dividends on our common stock in the near term. However, in the future, subject to factors such as general economic and business conditions, our financial condition and results of operations, our capital requirements, our future liquidity and capitalization and such other factors that our board of directors may deem relevant, we may change this policy and choose to pay dividends. Our ability to pay dividends on our common stock is currently restricted by the terms of our senior secured credit facilities and may be further restricted by any future indebtedness we incur. Our business is conducted through our principal operating subsidiary, Generac Power Systems. Dividends from, and cash generated by Generac Power Systems will be our principal sources of cash to repay indebtedness, fund operations and pay dividends. Accordingly, our ability to pay dividends to our stockholders is dependent on the earnings and distributions of funds from Generac Power Systems.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item will be included in our 2012 Proxy Statement and is incorporated herein by reference.

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Registered Securities

Not applicable.

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data for the periods and at the dates indicated. The selected historical consolidated financial data for the years ended December 31, 2009, 2010 and 2011 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected historical consolidated financial data for the years ended December 31, 2007 and December 31, 2008 are derived from our audited historical financial statements not included in this annual report.

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

[Table of Contents](#)

(Dollars in thousands, except per share data)	Year ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010	Year ended December 31, 2011
Statement of operations data:					
Net sales	\$ 555,705	\$ 574,229	\$ 588,248	\$ 592,880	\$ 791,976
Costs of goods sold	333,428	372,199	352,398	355,523	497,322
Gross profit	222,277	202,030	235,850	237,357	294,654
Operating expenses:					
Selling and service	52,652	57,449	59,823	57,954	77,776
Research and development	9,606	9,925	10,842	14,700	16,476
General and administrative	17,581	15,869	14,713	22,599	30,012
Amortization of intangibles (1)	47,602	47,602	51,960	51,808	48,020
Goodwill and trade name impairment charge and trade name write-down (2)	—	583,486	—	—	9,389
Total operating expenses	127,441	714,331	137,338	147,061	181,673
Income (loss) from operations	94,836	(512,301)	98,512	90,296	112,981
Other income (expense):					
Interest expense	(125,366)	(108,022)	(70,862)	(27,397)	(23,718)
Gain on extinguishment of debt (3)	18,759	65,385	14,745	—	—
Write-off of deferred financing costs related to debt extinguishment	—	—	—	(4,809)	(377)
Investment income	2,682	600	2,205	235	110
Costs related to acquisition	—	—	—	—	(875)
Other, net	(1,196)	(1,217)	(1,206)	(1,105)	(1,155)
Total other expense, net	(105,121)	(43,254)	(55,118)	(33,076)	(26,015)
Income (loss) before provision (benefit) for income taxes	(10,285)	(555,555)	43,394	57,220	86,966
Provision (benefit) for income taxes (4)	(571)	400	339	307	(237,677)
Net income (loss)	\$ (9,714)	\$ (555,955)	\$ 43,055	\$ 56,913	\$ 324,643
Income (loss) per share - diluted:					
Class A Common Stock (5)	(34,994)	(357,628)	(41,111)	(1.65)	4.79
Class B Common Stock (5)	3,462	3,780	4,171	505	n/a

Statement of cash flows data:

Depreciation	6,181	7,168	7,715	7,632	8,103
Amortization	47,602	47,602	51,960	51,808	48,020
Expenditures for property and equipment	(13,191)	(5,186)	(4,525)	(9,631)	(12,060)

Other financial data:

Adjusted EBITDA (6)	158,148	129,858	159,087	156,249	188,476
Adjusted Net Income (7)	21,931	13,758	83,643	115,954	147,176

(Dollars in thousands)	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009	As of December 31, 2010	As of December 31, 2011
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Balance sheet data:

Current assets	\$ 217,750	\$ 274,997	\$ 345,017	\$ 272,519	\$ 383,265
Property, plant and equipment, net	78,982	76,674	73,374	75,287	84,384
Goodwill	1,029,068	525,875	525,875	527,148	547,473
Other intangibles and other assets	582,859	448,668	392,977	334,929	537,671
Total assets	\$ 1,908,659	\$ 1,326,214	\$ 1,337,243	\$ 1,209,883	\$ 1,552,793
Total current liabilities	\$ 94,690	\$ 127,981	\$ 131,971	\$ 86,685	\$ 165,390
Long-term debt, less current portion	1,280,750	1,121,437	1,052,463	657,229	575,000
Other long-term liabilities	27,439	43,539	17,418	24,902	43,514
Redeemable stock (8)	747,070	843,451	878,205	—	—
Total liabilities, redeemable stock and stockholders' equity (8)	\$ 1,908,659	\$ 1,326,214	\$ 1,337,243	\$ 1,209,883	\$ 1,552,793

[Table of Contents](#)

- (1) Our amortization of intangibles expenses include the straight-line amortization of customer lists, patents and other finite-lived intangibles assets.
- (2) As of October 31, 2008, as a result of our annual goodwill and tradename impairment test, we determined that an impairment of goodwill and trade names existed, and we recognized a non-cash charge of \$583.5 million in 2008. During the fourth quarter of 2011, the Company decided to strategically transition certain products to their more widely known Generac brand. Based on this decision, the Company recorded a \$9.4 million non-cash charge which primarily related to the write down of the impacted trade name to net realizable value. In addition, the Company performed its annual goodwill and tradename impairment test as of October 31, 2011. Except as noted, no impairment was indicated.
- (3) During 2007, affiliates of CCMP acquired \$80.3 million principal amount of second lien term loans for approximately \$60.0 million. CCMP's affiliates exchanged this debt for additional shares of our Class B Common Stock. The fair value of the shares exchanged was \$60.0 million. We recorded this transaction as additional Class B Common Stock of \$60.0 million based on the fair value of the debt contributed by CCMP's affiliates, which approximated the fair value of shares exchanged. The debt was held in treasury at face value. Consequently, we recorded a gain on extinguishment of debt of \$18.8 million, which includes a write-off of deferred financing fees and other closing costs in the consolidated statement of operations for the year ended December 31, 2007.

During 2008, affiliates of CCMP acquired \$148.9 million principal amount of second lien term loans for approximately \$81.1 million. CCMP's affiliates exchanged this debt for additional shares of our Class B Common Stock and Series A Preferred Stock. The fair value of the shares exchanged was \$81.1 million. We recorded this transaction as Series A Preferred Stock of \$62.9 million and Class B Common Stock of \$18.2 million based on the fair value of the debt contributed by CCMP's affiliates, which approximated the fair value of shares exchanged. The debt was held in treasury at face value. Consequently, we recorded a gain on extinguishment of debt of \$65.4 million, which includes a write-off of deferred financing fees and other closing costs in the consolidated statement of operations for the year ended December 31, 2008.

During 2009, affiliates of CCMP acquired \$9.9 million principal amount of first lien term loans and \$20.0 million principal amount of second lien term loans for approximately \$14.8 million. CCMP's affiliates exchanged this debt for 1,475,4596 shares of Series A Preferred Stock. The fair value of the shares exchanged was \$14.8 million. We recorded this transaction as additional Series A Preferred Stock of \$14.8 million based on the fair value of the debt contributed by CCMP's affiliates, which approximated the fair value of shares exchanged. The debt was held in treasury at face value. Consequently, we recorded a gain on extinguishment of debt of \$14.7 million, which includes a write-off of deferred financing fees and other closing costs, in the consolidated statement of operations for the year ended December 31, 2009.
- (4) The 2011 net tax benefit of \$237.7 million includes a tax benefit of \$271.4 million recorded due to the reversal of valuation allowances recorded on the Company's net deferred tax assets. See discussion in Item 8 – Financial Statements and Supplementary Data – Note 9 for additional information.
- (5) Diluted earnings per share reflects the impact of the reverse stock split which occurred immediately prior to the initial public offering as discussed in "Item 8 – Financial Statements and Supplementary Data – Note 1". At the time of the IPO on February 17, 2010, all shares of Class B common stock were converted into shares of Class A common stock, and the Class A common stock became the one class of outstanding common stock. See discussion of the IPO in Part 1, Item 1 – Initial Public Offering and Corporate Reorganization.
- (6) Adjusted EBITDA represents net income (loss) before interest expense, taxes, depreciation and amortization, as further adjusted for the other items reflected in the reconciliation table set forth below. This presentation is substantially consistent with the presentation used in our senior secured credit facilities (Covenant EBITDA), except that we do not give effect to certain additional adjustments that are permitted under those facilities which, if included, would increase the amount reflected in this table. For a description of the additional adjustments permitted for Covenant EBITDA under our senior secured credit facilities, see "Item 7 - Management's discussion and analysis of financial condition and results of operations—Liquidity and capital resources—Senior secured credit facilities—Covenant compliance." The definition of Adjusted EBITDA in the new February 2012 credit agreement is substantially the same as the definition in the previous 2006 credit agreement.

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

- for planning purposes, including the preparation of our annual operating budget and developing and refining our internal projections for future periods;
- to allocate resources to enhance the financial performance of our business;

[Table of Contents](#)

- as a benchmark for the determination of the bonus component of compensation for our senior executives under our management incentive plan, as described further in our Proxy Statement;
- to evaluate the effectiveness of our business strategies and as a supplemental tool in evaluating our performance against our budget for each period; and
- in communications with our board of directors and investors concerning our financial performance.

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

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

The adjustments included in the reconciliation table listed below are provided for under our senior secured credit facilities (except where noted in footnote (j) below) and also are presented to illustrate the operating performance of our business in a manner consistent with the presentation used by our management and board of directors. These adjustments eliminate the impact of a number of items that:

- we do not consider indicative of our ongoing operating performance, such as non-cash impairment and other charges, transaction costs relating to the CCMP Transactions and repurchases of our debt by affiliates of CCMP, non-cash gains relating to the retirement of debt, severance costs and other restructuring-related business optimization expenses;
- we believe to be akin to, or associated with, interest expense, such as administrative agent fees, revolving credit facility commitment fees and letter of credit fees;
- are non-cash in nature, such as share-based compensation; or
- were eliminated following the consummation of our initial public offering, such as sponsor fees.

We explain in more detail in footnotes (a) through (j) 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;

[Table of Contents](#)

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- several of the adjustments that we use in calculating Adjusted EBITDA, such as non-cash impairment charges, while not involving cash expense, do have a negative impact on the value our assets as reflected in our consolidated balance sheet prepared in accordance with U.S. GAAP;
- the adjustments for business optimization expenses, which we believe are appropriate for the reasons set out in note (f) below, represent costs associated with severance and other items which are reflected in operating expenses and income (loss) from continuing operations in our consolidated statements of operations prepared in accordance with U.S. GAAP; and
- other companies may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

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

Our former senior secured credit facility required Generac Power Systems, Inc. to maintain a leverage ratio of consolidated total debt, net of unrestricted cash and marketable securities, to Covenant EBITDA at a level that varied over time. As of December 31, 2011, Generac Power Systems, Inc.'s ratio was 2.83 to 1.00, which was below the covenant requirement of 4.75 to 1.00. Generac Holdings Inc. net debt to adjusted EBITDA ratio as of December 31, 2011 was 2.65x. Our credit agreement does not permit us to net cash and cash equivalents held by the Generac Holdings Inc. entity against our debt balance for covenant purposes. Our new senior secured credit facilities entered into on February 9, 2012 also include certain financial covenants. The new credit facility requires Generac Power Systems to maintain a maximum leverage ratio (as defined in the senior secured credit facility) of 4.00 to 1.00 from the periods June 30, 2012 to September 30, 2012, and 3.75 to 1.00 thereafter. In addition, the new credit facility requires Generac Power Systems to maintain a minimum interest coverage ratio (as defined in the senior secured credit facility) of 2.50 to 1.00 from June 30, 2012 to September 30, 2012, 2.75 to 1.00 from December 31, 2012 to June 30, 2013, 3.00 to 1.00 from September 30, 2013 to June 30, 2014 and 3.25 to 1.00 thereafter. Failure to comply with this covenant would result in an event of default under our new senior secured credit facility unless waived by our lenders. An event of default under our new senior secured credit facility could result in the acceleration of our indebtedness under the facility, and we may be unable to repay the amounts due.

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

(Dollars in thousands)	Year ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010	Year ended December 31, 2011
Net income (loss)	\$ (9,714)	\$ (555,955)	\$ 43,055	\$ 56,913	\$ 324,643
Interest expense	125,366	108,022	70,862	27,397	23,718
Depreciation and amortization	53,783	54,770	59,675	59,440	56,123
Income taxes provision (benefit)	(571)	400	339	307	(237,677)
Non-cash impairment and other charges (income)(a)	5,328	585,634	(1,592)	(361)	10,400
Non-cash share-based compensation expense(b)	—	—	—	6,363	8,646
Write-off of deferred financing costs related to debt extinguishment(c)	—	—	—	4,809	377
Transaction costs and credit facility fees(d)	1,044	1,319	1,188	1,019	1,719
Non-cash gains(e)	(18,759)	(65,385)	(14,745)	—	—
Business optimization expenses(f)	1,944	971	—	108	277
Sponsor fees(g)	500	500	500	56	—
Letter of credit fees(h)	335	169	135	(26)	(33)
Other state franchise taxes(i)	—	53	72	317	342
Holding company interest income(j)	(1,108)	(640)	(402)	(93)	(59)
Adjusted EBITDA	\$ 158,148	\$ 129,858	\$ 159,087	\$ 156,249	\$ 188,476

(a) Represents the following non-cash charges:

[Table of Contents](#)

- for the year ended December 31, 2007, primarily a \$3.9 million charge for the step-up in book value of inventory as a result of the application of purchase accounting in connection with the CCMP Transactions. Also includes \$1.4 million of other charges, including a write-off of a pre-CCMP Transactions receivable, stock compensation expense, unsettled mark-to-market losses on copper forward contracts and losses on disposals of assets;
- for the year ended December 31, 2008, primarily \$503.2 million in goodwill impairment charges and \$80.3 million in trade name impairment charges described in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical accounting policies—Goodwill and other intangible assets." \$1.6 million of the amount is comprised of unsettled mark to market losses on copper forward contracts, a write-off of pre-CCMP Transactions bad debts and losses on disposals of assets. Separately, the amount also includes a write-off of certain inventory;
- for the years ended December 31, 2010 and 2009, primarily unrealized mark-to-market adjustments on copper and Euro forward contracts and loss on disposal of assets;
- for the years ended December 31, 2011, primarily \$9.4 million trade name write-down described in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical accounting policies—Goodwill and other intangible assets." Also includes unrealized mark-to-market adjustment on copper forward contracts and loss on disposal of assets;

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

- The losses on disposals of assets in several periods described above result from the sale of assets that are no longer useful in our business and therefore represent losses that are not from our core operations;
 - The write-offs of certain pre-CCMP Transaction bad debts in the years ended December 31, 2007 and 2008 are non-cash charges that we believe do not reflect cash outflows after our acquisition by CCMP;
 - The adjustments for unrealized mark-to-market gains and losses on copper forward and Euro contracts represent non-cash items to reflect changes in the fair value of forward contracts that have not been settled or terminated. We believe that it is useful to adjust net income for these items because the charges do not represent a cash outlay in the period in which the charge is incurred, although Adjusted EBITDA must always be used together with our U.S. GAAP statements of operations and cash flows to capture the full effect of these contracts on our operating performance;
 - The goodwill and trade name impairment charges recorded in the year ended December 31, 2008 and the trade name write-down recorded in the year ended December 31, 2011 are one-time items that we believe do not reflect our ongoing operations. These charges are explained in greater detail in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Goodwill and Other Intangible Assets";
 - The small amount of stock compensation expense recorded in the year ended December 31, 2007 was a non-cash charge for compensation under our 2006 Management Equity Incentive Plan. We do not believe that equity awards and the related expense under our 2006 Management Equity Incentive Plan, which terminated in connection with our initial public offering, will be useful in predicting stock compensation expense that we will incur under the new equity incentive plan that we adopted in connection with the IPO. However, we do expect to incur stock compensation expense under the new plan, and you should see our Proxy Statement under captions "Compensation discussion and analysis—Components of compensation—Equity-based compensation" and "Executive compensation—2010 Equity incentive plan" for more information about that plan; and
 - The write-off of certain pre-CCMP Transaction excess inventory recorded in the year ended December 31, 2008 was a non-cash charge that we believe does not reflect cash outflows after our acquisition by CCMP.
- (b) Represents share-based compensation expense to account for stock options, restricted stock and other stock awards over their vesting period.
- (c) Represents the write-off of a portion of deferred financing costs related to the repayment of debt.

[Table of Contents](#)

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

- administrative agent fees and revolving credit facility commitment fees under our senior secured credit facilities, which we believe to be akin to, or associated with, interest expense and whose inclusion in Adjusted EBITDA is therefore similar to the inclusion of interest expense in that calculation;
- before 2011, transaction costs relating to repurchases of debt under our first and second lien credit facilities by affiliates of CCMP, which CCMP's affiliates contributed to our company in exchange for the issuances of securities, which repurchases we do not expect to recur;
- in the year ended December 31, 2011, transaction costs relating to the acquisition of the Magnum Products business

(e) represents the following non-cash gains:

- for all periods before 2010, represents non-cash gains on the extinguishment of debt repurchased by affiliates of CCMP, as described in note (d) above, which we do not expect to recur.

(f) Primarily represents severance costs incurred from restructuring-related activities. For the year ended December 31, 2007, consists of \$1.4 million of severance costs and \$0.6 million of other restructuring-related costs. We do not believe the charges for restructuring-related activities in the year ended December 31, 2007 reflect our ongoing operations. Although we have incurred severance costs in most of the periods set forth in the table above, it is difficult to predict the amounts of similar costs in the future, and we believe that adjusting for these costs aids in measuring the performance of our ongoing operations. We believe that these costs will tend to be immaterial to our results of operations in future periods.

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

(h) Represents fees on letters of credit outstanding under our senior secured credit facilities, which we believe to be akin to, or associated with, interest expense and whose inclusion in Adjusted EBITDA is therefore similar to the inclusion of interest expense.

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

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

(7) Adjusted Net Income is defined as net income before provision (benefit) for income taxes adjusted for the following items: cash income tax expense, amortization of intangible assets, amortization and write-offs of deferred loan costs related to the Company's debt, intangible asset impairment charges, transaction costs and purchase accounting adjustments, and non-cash gains reflected in the reconciliation table set forth below.

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

[Table of Contents](#)

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, such as amortization costs, and non-cash gains and write-offs relating to the retirement of debt. We also make adjustments to present cash taxes paid.

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

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

The following table presents a reconciliation of net income (loss) to Adjusted Net Income:

(Dollars in thousands)	Year ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2009	Year ended December 31, 2010	Year ended December 31, 2011
Net income (loss)	\$ (9,714)	\$ (555,955)	\$ 43,055	\$ 56,913	\$ 324,643
Provision (benefit) for income taxes	(571)	400	339	307	(237,677)
Income (loss) before provision (benefit) for income taxes	(10,285)	(555,555)	43,394	57,220	86,966
Amortization of intangible assets	47,602	47,602	51,960	51,808	48,020
Amortization of deferred loan costs	4,225	3,905	3,417	2,439	1,986
Write-off of deferred financing costs related to debt extinguishment	—	—	—	4,809	377
Intangible impairment charge	—	583,486	—	—	9,389
Transaction costs and purchase accounting adjustments	3,925	—	—	—	875
Gain on extinguishment of debt	(18,759)	(65,385)	(14,745)	—	—
Adjusted net income before income taxes	26,708	14,053	84,026	116,276	147,613
Cash income tax expense	(4,777)	(295)	(383)	(322)	(437)
Adjusted net income	<u>\$ 21,931</u>	<u>\$ 13,758</u>	<u>\$ 83,643</u>	<u>\$ 115,954</u>	<u>\$ 147,176</u>

(8) Includes our Series A Preferred Stock and Class B Common Stock. See Note 7 to our audited consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

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

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

Overview

We are a leading designer and manufacturer of a wide range of generators and other engine powered products for the residential, light commercial, industrial and commercial markets. 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 the United States and Canada. We design, manufacture, source and modify engines, alternators, automatic transfer switches and other components necessary for our products. Our generators and other products are fueled by natural gas, liquid propane, gasoline, diesel and Bi-Fuel™ and are available through a broad network of independent dealers, retailers and wholesalers and equipment rental companies.

Business drivers and measures

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

Industry trends

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

Increasing penetration opportunity. Although there have been recent increases in product costs for installed standby generators in the residential and light-commercial markets (driven in the last two years by raw material costs), these costs have declined overall over the last decade, and many potential customers are not aware of the costs and benefits of backup power solutions. We estimate that penetration rates for residential products are approximately 2.5% 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 2009 American Housing Survey for the United States, and penetration rates of many light-commercial outlets such as restaurants, drug stores, and gas stations are significantly lower than penetration of hospitals and industrial locations. We believe that by expanding our distribution network, continuing to develop our product line, and targeting our marketing efforts, we can continue to build awareness and increase penetration for our standby generators.

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

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

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

Operational factors

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

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

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

Other factors

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

Factors influencing interest expense. Interest expense can be impacted by a variety of factors, including market fluctuations in LIBOR, interest rate election periods, interest rate swap agreements and repayments of indebtedness. Interest expense decreased in 2011 compared to 2010, primarily due to approximately \$134 million of debt pre-payments made over the last thirteen months.

Factors influencing provision for income taxes. Because we made a Section 338(h)(10) election in connection with the CCMP Transactions, we have \$1.2 billion of tax-deductible goodwill and intangible asset amortization remaining as of December 31, 2011 that we expect to generate cash tax savings of \$470 million through 2021, assuming continued profitability and a 39% tax rate. The amortization of these assets for tax purposes is expected to be \$122 million annually through 2020 and \$102 million in 2021, which generates annual cash tax savings of \$48 million through 2020 and \$40 million in 2021, assuming profitability and a 39% tax rate. Additionally, we have federal net operating loss, or NOL, carry-forwards of \$127.1 million as of December 31, 2011, which we expect to generate an additional \$44 million of federal cash tax savings at a 35% rate when and if utilized. Based on current business plans, we believe that our cash tax obligations through 2021 will be significantly reduced by these tax attributes. However, any subsequent accumulations of common stock ownership leading to a change of control under Section 382 of the U.S. Internal Revenue Code of 1986, including through sales of stock by large stockholders, all of which are outside of our control, could limit and defer our ability to utilize our net operating loss carryforwards to offset future federal income tax liabilities.

In addition, as a result of the asset acquisition of Magnum, we have approximately \$57.0 million of tax deductible goodwill and intangible assets remaining as of December 31, 2011. We expect these assets to generate tax savings of \$22.2 million through 2026 assuming continued profitability and a 39% tax rate. The amortization of these assets for tax purposes is expected to be \$3.8 million annually through 2025 and \$2.9 million in 2026, which generates an additional annual cash tax savings of \$1.5 million through 2025 and \$1.1 million in 2026, assuming profitability and a 39% tax rate.

Seasonality. Although there is demand for our products throughout the year, in each of the past three years approximately 16% to 24% of our net sales occurred in the first quarter, 20% to 25% in the second quarter, 25% to 30% in the third quarter and 26% to 34% in the fourth quarter, with different seasonality depending on the timing of outage activity in each year, such as the outage activity experienced in the third and fourth quarters of 2011. Due to the significant demand and awareness created by these outage events in the second half of 2011, we expect growth rates during 2012 to be heavily weighted toward the first half of the year, assuming no material improvement in the macroeconomic environment and no comparable outage events in 2012. Because of this, our historical seasonality patterns may not apply in 2012.

We maintain a flexible production schedule in order to respond to outage-driven peak demand, but typically increase production levels in the second and third quarters of each year.

Transactions with CCMP

In November 2006, affiliates of CCMP, together with certain other investors and members of our management, purchased an aggregate of \$689 million of our equity capital. In addition, on November 10, 2006, Generac Power Systems borrowed an aggregate of \$1.38 billion, consisting of an initial drawdown of \$950 million under a \$1.1 billion first lien secured credit facility and \$430 million under a \$430 million second lien secured credit facility. With the proceeds from these equity and debt financings, together with cash on hand at Generac Power Systems, we (1) acquired all of the capital stock of Generac Power Systems and repaid certain pre-transaction indebtedness of Generac Power Systems for \$2.0 billion, (2) paid \$66 million in transaction costs related to the transaction and (3) retained \$3 million for general corporate purposes. For additional information concerning these and other historical transactions with CCMP, see “Item 1—Business—History—CCMP transactions.”

During 2007, affiliates of CCMP acquired \$80.3 million principal amount of second lien term loans for approximately \$60.0 million. CCMP's affiliates exchanged this debt for additional shares of Class B Common Stock. The fair value of the shares exchanged was \$60.0 million. We recorded this transaction as additional Class B Common Stock of \$60.0 million based on the fair value of the debt contributed by CCMP's affiliates, which approximated the fair value of shares exchanged. The debt was held in treasury at face value. Consequently, we recorded a gain on extinguishment of debt of \$18.8 million, which includes the write-off of deferred financing fees and other closing costs, in the consolidated statement of operations for the year ended December 31, 2007.

During 2008, affiliates of CCMP acquired \$148.9 million principal amount of second lien term loans for approximately \$81.1 million. CCMP's affiliates exchanged \$24.0 million principal amount of this debt for additional shares of Class B Common Stock and \$124.9 million principal amount of this debt for shares of our Series A Preferred Stock. The fair value of the shares of our Class B Common Stock and Series A Preferred Stock so exchanged was \$18.2 million and \$62.9 million, respectively. We recorded this transaction as Series A Preferred Stock of \$62.9 million and Class B Common Stock of \$18.2 million based on the fair value of the debt contributed by CCMP's affiliates, which approximated the fair value of shares exchanged. The debt was held in treasury at face value. Consequently, we recorded a gain on extinguishment of debt of \$65.4 million, which includes the write-off of deferred financing fees and other closing costs, in the consolidated statement of operations for the year ended December 31, 2008.

As of September 30, 2008, we failed to satisfy the leverage ratio in our senior secured credit facilities. As permitted by the credit agreement, in November, 2008, this violation was remedied by an equity contribution of \$15,500,000 from affiliates of CCMP, in exchange for 1,550 shares of Series A Preferred stock.

During 2009, affiliates of CCMP acquired \$9.9 million principal amount of first lien term loans and \$20.0 million principal amount of second lien term loans for approximately \$14.8 million. CCMP's affiliates exchanged this debt for 1,475.4596 shares of Series A Preferred Stock. The fair value of the shares exchanged was \$14.8 million. We recorded this transaction as additional Series A Preferred Stock of \$14.8 million based on the fair value of the debt contributed by CCMP's affiliates, which approximated the fair value of shares exchanged. The debt was held in treasury at face value. Consequently, we recorded a gain on extinguishment of debt of \$14.7 million, which includes a write-off of deferred financing fees and other closing costs, in the consolidated statement of operations for the year ended December 31, 2009.

In connection with such issuances of our Class B Common Stock to affiliates of CCMP in connection with debt exchanges in 2007 and 2008 and the satisfaction of preemptive rights under the shareholders' agreement that arose from such issuances, affiliates of CCMP sold some of the shares of our Class B Common Stock they were issued in connection with such debt exchanges to an entity affiliated with CCMP, certain other investors and certain members of our management and board of directors. In addition, in connection with such issuances of our Series A Preferred Stock to affiliates and CCMP in connection with debt exchanges in 2008 and 2009 and the satisfaction of preemptive rights under the shareholders' agreement that arose from such issuances, during the year ended December 31, 2009, we issued 2,000 shares of Series A Preferred Stock for an aggregate purchase price of \$20.0 million in cash to an entity affiliated with CCMP and certain members of management and our board of directors, and affiliates of CCMP sold some of the shares of Series A Preferred Stock they were previously issued in connection with such debt exchanges to an entity affiliated with CCMP and a member of the board of directors at the same price.

Corporate reorganization

Our capitalization prior to the initial public offering consisted of Series A Preferred Stock, Class B Common Stock and Class A Common Stock. Our Series A Preferred Stock was entitled to a priority return preference equal to a 14% annual return on the amount originally paid for such shares and equity participation equal to 24.3% of the remaining equity value of the Company. Our Class B Common Stock was entitled to a priority return preference equal to a 10% annual return on the amount originally paid for such shares. In connection with the initial public offering, we undertook a corporate reorganization which gave effect to the conversion of our Series A Preferred Stock and Class B Common Stock into the same class of our common stock that was sold in our initial public offering while taking into account the rights and preference of those shares, including the priority returns of our Series A Preferred Stock and our Class B Common Stock and the equity participation rights of the Series A Preferred Stock. A reverse stock split was needed to reduce the number of shares to be issued to holders of our Class A and Class B Common Stock to the number that correctly reflected the proportionate interest of such stockholders in our company, taking into account the number of shares of common stock to be issued upon the conversion of our Series A Preferred Stock and the number and value of shares of common stock to be issued and sold to new investors in the initial public offering. We refer to these transactions as the “Corporate Reorganization.” The specific steps in the Corporate Reorganization were as follows:

Treatment of Class B Common Stock

Our certificate of incorporation prior to the offering provided for the mandatory conversion of our Class B Voting Common Stock to Class A Common Stock in the event of an initial public offering, so that our Class B Common Stock is converted into the same class of our common stock that is to be offered in an initial public offering taking into account of the value, rights and preferences of our Class B Common Stock. In accordance with the terms of our certificate of incorporation prior to the offering, at the time we entered into an underwriting agreement with respect to the initial public offering, each share of our Class B Common Stock automatically converted into a number of shares of our Class A Common Stock equal to one plus the quotient obtained by dividing (i)(x) the amount paid for such share of Class B Common Stock plus (y) an increase to such amount equal to 10% per annum calculated and compounded quarterly on the basis of a 360-day year of twelve 30-day months and which increased amount shall be deemed to have accrued on a daily basis (i.e., the “Class B Return”), by (ii) the public offering price (net of underwriting discounts and commissions). We refer to this as the “Class B Conversion.” Each share of our Class B Common Stock converted into 1,118,440 shares of our Class A Common Stock (i.e., the “Class B Conversion Ratio”). As a result of the Class B Conversion, we issued an aggregate of 88,484,700 shares of our Class A Common Stock.

Reverse stock split

Immediately following the Class B Conversion, we effected a 3.294 for one reverse stock split of our then outstanding shares of Class A Common Stock, including those shares of our Class A Common Stock issued as part of the Class B Conversion, which decreased the number of shares of our Class A Common Stock immediately after the Class B Conversion from 88,490,028 shares to 26,861,523 shares. We refer to this as the “Reverse Stock Split.”

Treatment of Series A Preferred Stock

The certificate of designations for our Series A Preferred Stock prior to our initial public offering provided for the mandatory conversion of the Series A Preferred Stock to Class A Common Stock in the event of an initial public offering, so that our Series A Preferred Stock is converted into the same class of our common stock that is to be offered in an initial public offering taking into account of the value, rights and preferences of our Series A Preferred Stock. In accordance with the terms of the certificate of designations to our Series A Preferred Stock and our certificate of incorporation prior to the offering, promptly following the time we entered into an underwriting agreement with respect to the initial public offering, each share of our Series A Preferred Stock automatically converted into a number of shares of our Class A Common Stock equal to the sum of (A) the quotient obtained by dividing (i)(w) the amount paid for such share of Series A Preferred Stock plus (x) an increase to such amount equal to 14% per annum calculated and compounded quarterly on the basis of a 360-day year of twelve 30-day months and which increased amount shall be deemed to have accrued on a daily basis (the “Series A Preferred Return”), by (ii) the public offering price (net of underwriting discounts and commissions), plus (B) the product of (y) a fraction, the numerator of which is one and the denominator of which is the number of shares of our Series A Preferred Stock outstanding at such time, and (z) an additional number of shares of our Class A Common Stock that, when added to the number of shares of our Class A Common Stock outstanding at such time, including after giving effect to the Class B Conversion and the Reverse Stock Split, equaled 24.3% of the number of shares of our Class A Common Stock outstanding at such time (excluding the shares issued pursuant to clause (A) above). We refer to this as the “Series A Preferred Conversion.” Each share of our Series A Preferred Stock converted into 1,724,976 shares of our Class A Common Stock (i.e., the “Series A Preferred Conversion Ratio”). As a result of the Series A Preferred Conversion, we issued an aggregate of 19,511,018 shares of our Class A Common Stock.

Reclassification of Class A Common Stock

After giving effect to the Class B Conversion, the Reverse Stock Split and the Series A Preferred Conversion, there were 46,372,541 shares of Class A Common Stock which were reclassified as common stock.

Initial public offering

On February 17, 2010, the Company completed its initial public offering of 18,750,000 shares of its common stock at a price of \$13.00 per share. In addition, the underwriters exercised their option and purchased an additional 1,950,500 shares of the Company’s common stock from the Company on March 18, 2010. We received a total of approximately \$247.9 million in net proceeds from the initial public offering and underwriters’ option exercise, after deducting the underwriting discounts and expenses. Immediately following the Corporate Reorganization, the IPO and underwriters’ option exercise, we had 67,529,290 total shares of common stock outstanding.

Repayment of debt

In February 2010, we used \$221.6 million in net proceeds from the initial closing of the IPO to pay down our second lien term loan in full and to pay down a portion of our first lien term loan. In addition, in March 2010, December 2010, April 2011 and December 2011, we used \$138.5 million, \$74.2 million, \$24.7 million and \$34.6 million, respectively, of cash and cash equivalents on hand to further pay down our first lien term loan. As a result of these debt repayments, the outstanding balance on the first lien credit facility has been reduced to \$597.9 million as of December 31, 2011, and our second lien credit facility has been repaid in full and terminated. This reduction in debt will have a significant impact on cash flows as a result of lower interest expense in future periods, based on current LIBOR rates.

Additionally, in connection with our refinancing on February 9, 2012, we used \$22.9 million of cash and cash equivalents on hand to further pay down our first lien term loan. We classified this portion of debt as a current liability in our consolidated balance sheet at December 31, 2011.

Components of net sales and expenses

Net sales

Substantially all of our net sales are generated through the sale of our generators and other engine powered products to the residential, commercial and industrial markets. We also sell engines to certain customers and service parts to our dealer network. Net sales are recognized upon shipment of products to our customers. Net sales also includes shipping and handling charges billed to customers which are recognized at the time of shipment of products to our customers. Related freight costs are included in cost of sales. Our generators and other products are fueled by natural gas, liquid propane, gasoline, diesel or Bi-Fuel™ systems with power output from 800W to 9mW. Our products are primarily manufactured and assembled at our Wisconsin facilities and distributed through thousands of outlets across the United States and Canada. Our smaller kW generators for the residential, portable and commercial markets are typically built to stock, while our larger kW products for the industrial markets are generally customized and built to order.

Our net sales are affected primarily by the U.S. economy as sales outside of the United States represent only approximately 5% of total net sales.

We are not dependent on any one channel or customer for our net sales, with no single customer representing more than 8% of our net sales for the year ended December 31, 2011 and our top ten customers representing less than 30% of our net sales for the same period.

Costs of goods sold

The principal elements of costs of goods sold in our manufacturing operations are component parts, raw materials, factory overhead and labor. Component parts and raw materials comprised over 80% of costs of goods sold for the year ended December 31, 2011. The principal component parts are engines and alternators. We design and manufacture air-cooled engines for certain of our products smaller than 20kW. We source engines for some of our smaller products and all of our products larger than 20kW. We design all the alternators for our units and manufacture alternators for certain of our units. We also manufacture other generator components where we believe we have a design and cost advantage. We source component parts from an extensive global network of reliable, low-cost suppliers.

The principal raw materials used in our manufacturing processes and in the manufacturing of the components we source are steel, copper and aluminum. We are susceptible to fluctuations in the cost of these commodities, impacting our costs of goods sold. We seek to mitigate the impact of commodity prices on our business through a continued focus on product design improvements and price increases in our products. However, there is typically a lag between raw material price fluctuations and their effect on our costs of goods sold.

Other sources of costs include our manufacturing facilities, which require significant factory overhead, labor and shipping costs. Factory overhead includes utilities, support personnel, depreciation, general supplies and support and maintenance. Although we maintain a low-cost, largely non-union workforce and flexible manufacturing processes, our margins can be impacted when we cannot promptly decrease labor and manufacturing costs to match declines in net sales.

Operating expenses

Our operating expenses consist of costs incurred to support our marketing, distribution, engineering, information systems, human resources, finance, purchasing, risk management, legal and tax functions. All of these categories include personnel costs such as salaries, bonuses, employee benefit costs and taxes. We typically classify our operating expenses into four categories: selling and service, research and development, general and administrative, and amortization of intangibles.

[Table of Contents](#)

Selling and service. Our selling and service expenses consist primarily of personnel expense, marketing expense, warranty expense and other sales expenses. Our personnel expense recorded in selling and services expenses includes the expense of our sales force responsible for our national accounts and other personnel involved in the marketing and sales of our products. Warranty expense, which is recorded at the time of sale, is estimated based on historical trends. Our marketing expenses include direct mail costs, printed material costs, product display costs, market research expenses, trade show expenses and media advertising. Marketing expenses generally increase as our sales efforts increase and are related to the launch of new product offerings and opportunities within selected markets or associated with specific events such as awareness marketing in areas impacted by storms, participation in trade shows and other events.

Research and development. Our research and development expenses support over 130 active research and development projects. We currently operate four advanced facilities and employ over 150 engineers who focus on new product development, existing product improvement and cost reduction. Our commitment to research and development has resulted in a significant portfolio of approximately 90 U.S. and international patents and patent applications. Our research and development costs are expensed as incurred.

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

Amortization of intangibles. Our amortization of intangibles expenses include the straight-line amortization of customer lists, patents and other intangibles assets.

Goodwill and trade name. Goodwill primarily represents the excess of the amount paid to acquire us over the estimated fair value of the net tangible and intangible assets acquired as of the November 2006 date of the CCMP Transactions.

Other indefinite-lived intangible assets consist of trade names. The fair value of trade names is measured using a relief-from-royalty approach, which assumes the fair value of the trade name is the discounted cash flows of the amount that would be paid had we not owned the trade name and instead licensed the trade name from another company.

In 2011, we recorded a non-cash charge which primarily related to the write down of a certain trade name. Please see “Critical accounting policies—Goodwill and other intangible assets” for additional detail on this charge.

Other income (expense)

Our other income (expense) includes the interest expense on the outstanding balances of our \$950.0 million first lien term loan, \$430.0 million second lien term loan and \$150.0 million revolving credit facility entered into in November 2006, and the amortization of debt financing costs. In February 2010, we used the net proceeds from the initial closing of the initial public offering to pay down our second lien term loan in full and to pay down a portion of our first lien term loan. In addition, in March 2010, December 2010, April 2011 and December 2011, we used cash and cash equivalents on hand to further pay down our first lien term loan principal. No amounts were outstanding under the revolving credit facility at December 31, 2011 and December 31, 2010. The amounts borrowed under our term loans bear interest at rates based upon either a base rate or LIBOR, plus an applicable margin. We also earn interest income on our cash and cash equivalents, which is included in other income (expense). We also recorded expenses related to interest rate swap agreements, which had a notional amount of \$300.0 million outstanding at December 31, 2010 at an average rate of 1.5%, and a notional amount of \$300.0 million outstanding at December 31, 2011 at an average rate of 1.5%. Other income (expense) may also include other financial items such as extinguishment of debt.

Costs related to acquisition. In 2011, our other expenses include one-time transaction-related expenses related to the acquisition of the Magnum business.

Results of operations**Year ended December 31, 2011 compared to year ended December 31, 2010**

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

(Dollars in thousands)	Year ended December 31,	
	2010	2011
Net sales	\$ 592,880	\$ 791,976
Costs of goods sold	355,523	497,322
Gross profit	237,357	294,654
Operating expenses:		
Selling and service	57,954	77,776
Research and development	14,700	16,476
General and administrative	22,599	30,012
Amortization of intangibles	51,808	48,020
Trade name write-down	-	9,389
Total operating expenses	147,061	181,673
Income from operations	90,296	112,981
Total other expense, net	(33,076)	(26,015)
Income before provision for income taxes	57,220	86,966
Provision for income taxes	307	(237,677)
Net income	\$ 56,913	\$ 324,643

(Dollars in thousands)	Year ended December 31,	
	2010	2011
Residential power products	\$ 372,782	\$ 491,016
Commercial & Industrial power products	183,555	250,270
Other	36,543	50,690
Net sales	\$ 592,880	\$ 791,976

Net sales. Net sales increased \$199.1 million, or 33.6%, to \$792.0 million for the year ended December 31, 2011 from \$592.9 million for the year ended December 31, 2010. This increase was driven by a \$118.2 million, or a 31.7%, increase in residential product sales largely driven by demand created by the major power outages in the third and fourth quarters of 2011. The frequency and duration of these major outages in certain regions of the country led to a surge in demand for portable generators as well as increased awareness and accelerated adoption of home standby generators. Commercial and industrial product sales increased \$66.7 million, or 36.3%. Magnum Products contributed \$36.5 million during the fourth quarter of 2011. In addition, overall capital spending from our national account customers and strong demand for our large industrial systems also contributed to increased commercial and industrial sales. Other product sales increased \$14.1 million mainly due to stronger service parts sales as a result of the major power outage events during the second half of 2011. Magnum Products also contributed \$2.3 million to service parts sales during the fourth quarter of 2011.

[Table of Contents](#)

Costs of goods sold. Costs of goods sold increased \$141.8 million, or 39.9%, to \$497.3 million for the year ended December 31, 2011 from \$355.5 million for the year ended December 31, 2010. This increase was mainly driven by the increase in sales volume and the addition of Magnum Products during the fourth quarter.

Gross profit. Gross profit increased \$57.3 million, or 24.1%, to \$294.7 million for the year ended December 31, 2011 from \$237.4 million for the year ended December 31, 2010, primarily due to the factors affecting net sales and cost of goods sold described above. As a percent of net sales, gross profit margin for the year ended December 31, 2011 decreased to 37.2% from 40.0% for the year ended December 31, 2010. This decline is primarily attributable to a higher sales mix of lower margin portable generators during 2011 and the mix impact from the addition of the Magnum Products business during the fourth quarter of 2011. To a lesser extent, higher commodity costs versus the prior year also contributed to the year-over-year gross margin decline.

Operating expenses. Operating expenses increased \$34.6 million to \$181.7 million for the year ended December 31, 2011 from \$147.1 million for the year ended December 31, 2010. Selling and service expenses increased \$19.8 million due to higher variable operating expenses and incentive compensation as a result of higher sales experienced during 2011. General and administration costs increased \$7.4 million mainly due to increased incentive compensation and incremental stock-based compensation expense. Operating expenses also increased as a result of investments made in infrastructure in 2011 to support the strategic growth initiatives of the Company. In addition, in the fourth quarter of 2011 the Company recorded a \$9.4 million non-cash charge which primarily related to the write down of a certain trade name as we strategically transition to the Generac brand.

Other expense. Other expense decreased \$7.1 million, or 21.3%, to \$26.0 million for the year ended December 31, 2011 from \$33.1 million for the year ended December 31, 2010. This decrease was driven by a decline in interest expense of \$3.7 million as a result of approximately \$134 million of debt pre-payments made over the last thirteen months. In addition, there was a \$4.4 million decrease in the write-off of deferred financing costs related to debt extinguishment. Partially offsetting the aforementioned decreases are transaction costs related to the Magnum Products acquisition totaling \$0.9 million.

Income tax expense. Income tax expense decreased \$238.0 million to a benefit of \$237.7 million for the year ended December 31, 2011 from \$0.3 million for the year ended December 31, 2010 due to a reversal of the full valuation allowance on net deferred tax assets. See discussion in Item 8 – Financial Statements and Supplementary Data – Note 9 for additional information.

Net income. As a result of the factors identified above, we generated net income of \$324.6 million for the year ended December 31, 2011 compared to a net income of \$56.9 million for the year ended December 31, 2010. The increase in net income is due to the items previously described.

Adjusted EBITDA. Adjusted EBITDA increased to \$188.5 million, compared to \$156.2 million in 2010, due to the factors previously discussed.

Adjusted net income. Adjusted Net Income increased to \$147.2 million in 2011 compared to \$116.0 million in 2010, due to the factors discussed above.

Year ended December 31, 2010 compared to year ended December 31, 2009

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

(Dollars in thousands)	Year ended December 31,	
	2009	2010
Net sales	\$ 588,248	\$ 592,880
Costs of goods sold	352,398	355,523
Gross profit	235,850	237,357
Operating expenses:		
Selling and service	59,823	57,954
Research and development	10,842	14,700
General and administrative	14,713	22,599
Amortization of intangibles	51,960	51,808
Total operating expenses	137,338	147,061
Income (loss) from operations	98,512	90,296
Total other expense, net	(55,118)	(33,076)
Loss before provision for income taxes	43,394	57,220
Provision for income taxes	339	307
Net loss	\$ 43,055	\$ 56,913

(Dollars in thousands)	Year ended December 31,	
	2009	2010
Residential power products	\$ 370,740	\$ 372,782
Commercial & Industrial power products	187,323	183,555
Other	30,185	36,543
Net sales	<u>\$ 588,248</u>	<u>\$ 592,880</u>

Net sales. Net sales increased \$4.6 million, or 0.8%, to \$592.9 million for the year ended December 31, 2010 from \$588.2 million for the year ended December 31, 2009. This increase was driven by a \$2.0 million, or a 0.6%, increase in sales to the residential markets due to continued expansion of the Company's distribution network and successful new product launches, offset by continued weakness in U.S. residential investment. This residential product sales increase was offset by a \$3.8 million, or 2.0%, decline in industrial and commercial product sales as a result of market declines in non-residential construction and reduced capital spending by national account customers. Although a decrease for the full year, industrial and commercial product sales displayed strong momentum in the second half of fiscal 2010 as end markets recovered. Other product sales increased \$6.4 million as a result of stronger RV, OEM engine and service parts sales.

Costs of goods sold. Costs of goods sold increased \$3.1 million, or 0.9%, to \$355.5 million for the year ended December 31, 2010 from \$352.4 million for the year ended December 31, 2009. This increase was driven by a \$4.4 million increase in materials cost, primarily due to higher steel, copper and aluminum costs, as well as by the increase in sales volume, partially offset by lower manufacturing overhead costs.

Gross profit. Gross profit increased \$1.5 million, or 0.6%, to \$237.4 million for the year ended December 31, 2010 from \$235.9 million for the year ended December 31, 2009, primarily due to the factors affecting net sales and cost of goods sold described above. As a percentage of net sales, gross profit decreased slightly to 40.0% for the year ended December 31, 2010 from 40.1% for the year ended December 31, 2009.

Operating expenses. Operating expenses increased \$9.7 million to \$147.1 million for the year ended December 31, 2010 from \$137.3 million for the year ended December 31, 2009. This increase is due to incremental research and development costs of \$3.9 million related to ongoing product development. In addition, general and administrative expenses increased \$7.9 million, of which \$6.4 million was related to non-cash stock compensation expense recorded for the time vesting of equity awards granted in connection with the IPO. The remaining increase in administrative costs was associated with additional costs to operate as a public company.

Other expense. Other expense decreased \$22.0 million, or 40.0%, to \$33.1 million for the year ended December 31, 2010 from \$55.1 million for the year ended December 31, 2009. This decrease was driven by a decline in interest expense of \$43.5 million as a result of our reduction in indebtedness, lower LIBOR rates and the termination of certain interest rate swap agreements. Offsetting this interest expense decline in 2010, there was a prior year gain on extinguishment of debt of \$14.7 million that did not occur in 2010, as well as the current year write-off of deferred financing costs related to debt extinguishment of \$4.8 million.

Income tax expense. Income tax expense was \$0.3 million for the year ended December 31, 2010, unchanged from the year ended December 31, 2009. Income tax expense primarily relates to certain state income taxes based on profitability measures other than net income.

Net income. As a result of the factors identified above, we generated net income of \$56.9 million for the year ended December 31, 2010 compared to a net income of \$43.1 million for the year ended December 31, 2009. The increase in net income is due to the items previously described.

Adjusted EBITDA. Adjusted EBITDA decreased to \$156.2 million, compared to \$159.1 million in 2009, as modest sales growth and consistent gross margins were more than offset by increased investment in the business. Adjusted EBITDA margins declined slightly in fiscal 2010 to 26.4% compared to 27.0% in fiscal 2009.

[Table of Contents](#)

Adjusted net income. Adjusted Net Income increased to \$115.9 million in 2010 compared to \$83.6 million in 2009. The increase in adjusted net income was attributable to lower interest expense versus prior year offset by non-cash stock compensation expenses and reduced Adjusted EBITDA compared to fiscal 2009.

Liquidity and financial position

Our primary cash requirements include the payment of our raw material and components suppliers, salaries & benefits, 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 revolving credit facility. In November 2006, Generac Power Systems entered into a seven-year \$950.0 million first lien term loan, a seven-and-a-half year \$430.0 million second lien term loan, and a six-year \$150.0 million revolving credit facility. During 2010 and 2011, we used the net proceeds of our initial public offering and a substantial portion of our cash and cash equivalents on hand totaling \$493.8 million to pay down our second lien term loans in full and to repay a portion of our first lien term loan. As a result of these pay downs, the outstanding balance on the first lien credit facility has been reduced to \$597.9 million as of December 31, 2011, and our second lien credit facility has been repaid in full and terminated.

At December 31, 2011, we had cash and cash equivalents of \$93.1 million and \$144.2 million of availability under our revolving credit facility. Our total indebtedness was \$597.9 million at December 31, 2011.

On February 9, 2012, Generac Power Systems repaid an additional \$22.9 million against its first lien term loan and entered into a new credit agreement. The new credit agreement provides for borrowings under a new five-year \$150.0 million revolving credit facility, a five-year \$325.0 million tranche A term loan facility and a seven-year \$250.0 million tranche B term loan facility. Proceeds received by the Company from loans made under the new credit agreement were used to repay in full all outstanding borrowings under the former credit agreement, dated as of November 10, 2006, as amended from time to time, and for general corporate purposes. As a result of the repayments of debt and refinancing, our total indebtedness was \$575.0 million at February 9, 2012.

Long-term liquidity

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

Cash flow

Year ended December 31, 2011 compared to year ended December 31, 2010

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

(Dollars in thousands)	Year ended December 31,		Change	% Change
	2010	2011		
Net cash provided by operating activities	\$ 114,481	\$ 169,712	\$ 55,231	48.2%
Net cash used in investing activities	\$ (11,204)	\$ (95,953)	\$ (84,749)	-756.4%
Net cash used in financing activities	\$ (186,001)	\$ (59,216)	\$ 126,785	68.2%

Net cash provided by operating activities was \$169.7 million for 2011 compared to \$114.5 million in 2010. This increase of \$55.2 million, or 48.2%, is primarily attributable to increased sales volume during 2011 and to a lesser extent favorable net cash inflows from working capital in 2011 compared to net cash flow outflows from working capital in 2010.

[Table of Contents](#)

Net cash used for investing activities for the year ended December 31, 2011 was \$96.0 million. This included \$12.1 million used for the purchase of property and equipment and \$83.9 million for the acquisition of the Magnum Products business. Net cash used for investing activities for the year ended December 31, 2010 was \$11.2 million and included \$9.6 million used for the purchase of property and equipment and \$1.6 million for a business acquisition, net of cash acquired.

Net cash used in financing activities was \$59.2 million for the year ended December 31, 2011, a decrease of \$126.8 million in net cash outflows from 2010 due to higher levels of debt payments made in 2010 totaling \$434.3 million which were offset by \$248.3 million of proceeds from the issuance of common stock. In 2011, \$59.4 million of payments on debt were made.

Year ended December 31, 2010 compared to year ended December 31, 2009

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

(Dollars in thousands)	Year ended December 31,		Change	% Change
	2009	2010		
Net cash provided by operating activities	\$ 74,607	\$ 114,481	\$ 39,874	53.4%
Net cash used in investing activities	\$ (4,351)	\$ (11,204)	\$ (6,853)	-157.5%
Net cash provided (used) by financing activities	\$ 9,822	\$ (186,001)	\$ (195,823)	-1,993.7%

Net cash provided by operating activities was \$114.5 million for 2010 compared to \$74.6 million in 2009. This increase of \$39.9 million represents a 53.4% increase over prior year mainly due to the reduction of cash paid for interest expense of \$38.8 million. A reduction in working capital usage also contributed to the full year 2010 cash flow improvement as well.

Net cash used for investing activities for the year ended December 31, 2010 was \$11.2 million and included \$9.6 million used for the purchase of property and equipment and \$1.6 million for a business acquisition, net of cash acquired. Net cash used for investing activities for the year ended December 31, 2009 was \$4.4 million and included \$4.5 million used for the purchase of property and equipment. The increase in property and equipment purchases in 2010 relates to certain product development and cost reduction projects.

Net cash provided (used) by financing activities was \$(186.0) million for the year ended December 31, 2010, a decrease of \$195.8 million from 2009, due mainly to \$248.3 million of proceeds from the issuance of common stock, offset by payments on debt of \$434.3 million. Net cash provided by financing activities was \$9.8 million for the year ended December 31, 2009 due to a \$20.0 million capital contribution in exchange for shares of our Series A Preferred Stock, offset by principal payments on our first lien term loan of \$9.5 million and \$0.7 million of payments incurred in advance of our IPO.

Senior secured credit facilities

In November 2006, as part of the CCMP Transactions, Generac Power Systems entered into (i) a first lien credit facility with Goldman Sachs Credit Partners L.P., as administrative agent, composed of (x) a \$950.0 million term loan, which was scheduled to mature in November 2013 and (y) a \$150 million revolving credit facility, which was scheduled to mature in November 2012, and (ii) a second lien credit facility with JP Morgan Chase Bank, N.A., as administrative agent, composed of a \$430.0 million term loan, which was scheduled to mature in May 2014. The effective interest rate on the first lien credit facility term loan on December 31, 2011 was 3.2%. The effective interest rate, excluding the effect of interest rate swaps in place on the first lien credit facility term loan on December 31, 2011, was 2.8%.

During 2010 and 2011, we used the net proceeds of our initial public offering and a substantial portion of our cash and cash equivalents on hand totaling \$493.8 million to pay down our second lien term loans in full and to repay a portion of our first lien term loans. As a result of these pay downs, the outstanding balance on the first lien credit facility was reduced to \$597.9 million as of December 31, 2011, and our second lien credit facility was repaid in full and terminated. Additional information on this credit facility can be found in the Notes to Consolidated financial Statements – Note 6 Credit Agreements.

[Table of Contents](#)

On February 9, 2012, Generac Power Systems repaid an additional \$22.9 million against its first lien term loan and entered into new senior secured credit facilities. The new credit facilities include a new five-year \$150.0 million revolving credit facility, a five-year \$325.0 million tranche A term loan facility and a seven-year \$250.0 million tranche B term loan facility. Proceeds from loans made under the new credit facilities were used to repay in full all first lien term loans outstanding under our former first lien credit facility, and for general corporate purposes. As a result of the repayments of debt and refinancing, our total indebtedness was \$575.0 million and there were no borrowings on the revolving credit facility at February 9, 2012.

The new revolving credit facility and tranche A term loan facility initially bear interest at rates based upon either a base rate plus an applicable margin of 1.25% or adjusted LIBOR rate plus an applicable margin of 2.25%. The tranche B term loan facility bears interest at rates based upon either a base rate (which, with respect to such tranche B term loan facility, will not be less than 2.00%) plus an applicable margin of 1.75% or adjusted LIBOR rate (which, with respect to such tranche B term loan facility, will not be less than 1.00%) plus an applicable margin of 2.75%. In subsequent periods, the new revolving credit facility and the tranche A term loan facility will bear interest at rates based upon either a base rate plus an applicable margin ranging from 0.75% to 1.50% or adjusted LIBOR rate plus an applicable margin ranging from 1.75% to 2.50%, each determined based on a leverage ratio.

Amounts under the new revolving credit facility can be borrowed and repaid, from time to time, at our option, provided there is no default or event of default under the new credit facilities.

The principal amount of the tranche A term loan amortizes in equal installments of \$4.063 million on the first day of each fiscal quarter commencing on July 1, 2012 through April 1, 2014, then equal installments of \$8.125 million on the first day of each fiscal quarter commencing July 1, 2014 through April 1, 2015, then equal installments of \$10.156 million on the first day of each fiscal quarter commencing July 1, 2015 through January 1, 2017, with a final payment of \$188.906 million on February 9, 2017. The principal amount of the tranche B term loan amortizes in equal installments of \$0.625 million on the first day of each fiscal quarter commencing on July 1, 2012 through January 1, 2019, with a final payment of \$233.125 million on February 9, 2019. Any amounts outstanding under the revolving credit facility are due on February 9, 2017.

The new credit facilities restrict the circumstances in which distributions and dividends can be paid by Generac Power Systems, as the borrower. Payments can be made by Generac Power Systems to us for certain expenses such as operating expenses in the ordinary course and dividends can be used to repurchase equity interests, subject to limitation in certain circumstances. Additionally, the new credit facilities restrict the aggregate amount of dividends and distributions that can be paid and, in certain circumstances, requires the maintenance of certain leverage ratios in order to pay certain dividends or distributions.

The new credit facilities permit Generac Power Systems to prepay its borrowings under the tranche A term loan facility, the tranche B term loan facility and the revolving credit facility, subject to the procedures set forth in the new credit agreement applicable to the new credit facilities. In certain circumstances, Generac Power Systems may be required to make prepayments on its outstanding borrowings under the new credit facilities if it receives proceeds as a result of certain asset sales, debt issuances, casualty or similar events of loss or if Generac Power Systems has excess cash flow (as defined in the new credit facilities).

The new credit agreement contains customary events of default, including, among others, nonpayment of principal, interest or other amounts, failure to perform covenants, inaccuracy of representations or warranties in any material respect, cross-defaults with other material indebtedness, certain undischarged judgments, the occurrence of certain ERISA or bankruptcy or insolvency events or the occurrence of a change in control (as defined in the new credit agreement). Upon an event of default under the new credit agreement, the lenders may declare the loans and all other obligations under the new credit agreement immediately due and payable and require Generac Power Systems to cash collateralize the outstanding letter of credit obligations. A bankruptcy or insolvency event of default causes such obligations to automatically become immediately due and payable.

The borrowings under the new credit facilities are secured by associated collateral agreements which pledge virtually all assets of Generac Power Systems and the guarantors of the new credit facilities. The new credit agreement requires Generac Power Systems, among other things, to meet certain financial and nonfinancial covenants and maintain a consolidated net leverage ratio not exceeding certain agreed levels and an interest coverage ratio not to decline below certain agreed levels.

Covenant compliance

The first lien credit facility in place at December 31, 2011 required Generac Power Systems to maintain a leverage ratio of consolidated total debt, net of unrestricted cash and marketable securities, to EBITDA (as defined in such first lien credit facility). We refer to the calculation of EBITDA under and as defined in such first lien credit facility in this annual report as “Covenant EBITDA.” Covenant EBITDA and the leverage ratio were calculated based on the four most recently completed fiscal quarters of Generac Power Systems. Based on the formulations set forth in the first lien credit facility, Generac Power Systems was required to maintain a maximum leverage ratio of 4.75 to 1.00 as of December 31, 2011 and for the remainder of the term of such first lien credit agreement. As of December 31, 2011, Generac Power Systems’ leverage ratio was 2.83 to 1.00. Failure to comply with this covenant would have resulted in an event of default under the first lien credit facility unless waived by the lender thereunder. Generac Power Systems was in compliance with the financial covenants under the first lien credit facility as of December 31, 2009, December 31, 2010 and December 31, 2011. Additional information on the first lien credit facility can be found in the Notes to Consolidated financial Statements – Note 6 Credit Agreements.

The new credit facilities, effective February 9, 2012, requires Generac Power Systems to maintain a leverage ratio of consolidated total debt, net of unrestricted cash and marketable securities, to EBITDA (as defined in the new credit agreement) and an interest coverage ratio of EBITDA to cash interest expense (as defined in the new credit agreement). The calculation of EBITDA under and as defined in the new credit agreement is referred to in this annual report as “Covenant EBITDA.” Covenant EBITDA, the leverage ratio and interest coverage ratio are calculated based on the four most recently completed fiscal quarters of Generac Power Systems. Based on the formulations set forth in the new credit agreement, Generac Power Systems is required to maintain a maximum leverage ratio of 4.00 to 1.00 from the periods June 30, 2012 to September 30, 2012, and 3.75 to 1.00 thereafter. Additionally, Generac Power Systems is required to maintain a minimum interest coverage ratio of 2.50 to 1.00 from June 30, 2012 to September 30, 2012, 2.75 to 1.00 from December 31, 2012 to June 30, 2013, 3.00 to 1.00 from September 30, 2013 to June 30, 2014 and 3.25 to 1.00 thereafter.

Our compliance with the financial covenants and satisfaction of certain leverage based ratios are used in determining, among other things, the interest rate applicable to the outstanding loans under the new credit facilities, the ability to undertake business acquisitions, the ability to incur certain types of indebtedness and the amount of dividends and distributions that are permitted to be paid to our stockholders, subject to certain exceptions.

An event of default under the new credit facilities could result in the acceleration of our indebtedness under such facilities, and we may be unable to repay or finance the amounts due. If there were an event of default as a result of a failure to maintain our required leverage ratio or otherwise, it would have an adverse effect on our financial condition and liquidity, including preventing us from utilizing our revolving credit facility. In addition, the new credit facilities restrict our ability to take certain actions, such as incur additional debt or make certain acquisitions, if we are unable to meet our leverage ratio.

In addition to the financial covenant described above, the new credit facilities contain certain other affirmative and negative covenants that, among other things, provide limitations on the incurrence of additional indebtedness, liens on property, sale and leaseback transactions, investments, loans and advances, merger or consolidation, asset sales, acquisitions, transactions with affiliates, prepayments of any other indebtedness and modifications of Generac Power Systems’ organizational documents.

As of December 31, 2011, \$597.9 million of borrowings were outstanding under the first lien credit facility. As of December 31, 2010, \$657.2 million of borrowings were outstanding under the first lien credit facility. As previously disclosed, on February 9, 2012, Generac Power Systems repaid an additional \$22.9 million against its first lien credit facility and entered into new credit facilities. As of February 9, 2012, a total of \$575.0 million were outstanding under the new credit facilities.

Contractual obligations

The following table summarizes our expected payments for significant contractual obligations as of December 31, 2011:

(Dollars in thousands)	Total	Payment due by period			
		Less than 1 year	2-3 years	4-5 years	After 5 years
Contractual obligations					
Long-term debt, including current portion (1)	\$ 597,874	\$ --	\$ 597,874	\$ --	--
Interest on long-term debt(2)	31,665	17,043	14,622	--	--
Operating leases	1,325	479	818	28	--
Total contractual cash obligations(3)	\$ 630,864	\$ 17,522	\$ 613,314	\$ 28	\$ --

(1) On February 9, 2012, a subsidiary of the Company entered into a new credit agreement with certain commercial banks and other lenders. The new credit agreement provides for borrowings under a new \$150.0 million revolving credit facility, a \$325.0 million tranche A term loan facility and a \$250.0 million tranche B term loan facility. The new revolving credit facility and tranche A term loan facility mature February 9, 2017, and the tranche B term loan facility matures February 9, 2019.

(2) Assumes all debt will remain outstanding until maturity and using the interest rates in effect for our senior secured credit facilities as of December 31, 2011.

(3) Pension obligations are excluded from this table as we are unable to estimate the timing of payment due to the inherent assumptions underlying the obligation. However, the Company estimates we will contribute \$2.9 million to our pension plans in 2012.

Capital expenditures

Our operations require capital expenditures for technology, tooling, equipment, capacity expansion and upgrades. Capital expenditures were \$12.1 million for the year ended December 31, 2011, and were funded through cash from operations. Capital expenditures were \$9.6 million for the year ended December 31, 2010, and were also funded through cash from operations.

Off-balance sheet arrangements

We have an arrangement with a finance company to provide floor plan financing for selected dealers. This arrangement provides liquidity for our dealers by financing dealer purchases of products with credit availability from the finance company. We receive payment from the finance company after shipment of product to the dealer and our dealers are given a longer period of time to pay the finance provider. If our dealers do not pay the finance company, we may be required to repurchase the applicable inventory held by the dealer.

Total inventory financed accounted for approximately 7% of net sales for the year ended December 31, 2010 and approximately 6% of net sales for the year ended December 31, 2011. The amount financed by dealers which remained outstanding was \$9.8 million and \$10.0 million as of December 31, 2010 and 2011, respectively.

Critical accounting policies

In preparing the financial statements in accordance with accounting principles generally accepted in the U.S., management is required to make estimates and assumptions that have an impact on the asset, liability, revenue and expense amounts reported. These estimates can also affect supplemental information disclosures of the Company, including information about contingencies, risk and financial condition. The Company believes, given current facts and circumstances, that its estimates and assumptions are reasonable, adhere to accounting principles generally accepted in the U.S., and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates and estimates may vary as new facts and circumstances arise. The Company makes routine estimates and judgments in determining net realizable value of accounts receivable, inventories, property, plant and equipment, and prepaid expenses. 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, defined benefit pension obligations, estimates of allowance for doubtful accounts, excess and obsolete inventory reserves, product warranty, other contingencies, derivative accounting, income taxes, and share based compensation.

Goodwill and other intangible assets

We perform an annual impairment test for goodwill and trade names and more frequently if an event or circumstances indicate that an impairment loss has been incurred. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset. The analysis of potential impairment of goodwill requires a two-step process. The first step is the estimation of fair value of the applicable reporting unit. Estimated fair value is based on management judgments and assumptions with the assistance of a third-party valuation firm, and those fair values are compared with our aggregate carrying value of the respective reporting unit. If our fair value is greater than the carrying amount, there is no impairment. If our carrying amount is greater than the fair value, then the second step must be completed to measure the amount of impairment, if any.

The second step calculates the implied fair value of the goodwill, which is compared to its carrying value. The implied fair value of goodwill is calculated by valuing all of the tangible and intangible assets of the reporting unit at the hypothetical fair value, assuming the reporting unit had been acquired in a business combination. The excess of the fair value of the entire reporting unit over the fair value of its identifiable assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

The Company performed the required annual impairment tests for goodwill as of October 31, 2011, 2010 and 2009, and found no impairment of goodwill.

During the fourth quarter of 2011, the Company decided to strategically transition certain products to their more widely known Generac brand. Based on this decision, the Company recorded a \$9.4 million non-cash charge which primarily related to the write down of the impacted trade name to net realizable value. In addition, the Company performed its annual fair value-based impairment test as of October 31, 2011. Except as noted, no impairment was indicated.

The Company performed its annual fair value-based impairment test on indefinite lived trade names as of October 31, 2010 and 2009. No impairment was indicated.

We can make no assurances that remaining goodwill or trade names will not be impaired in the future. When preparing a discounted cash flow analysis, we make a number of key estimates and assumptions. We estimate the future cash flows of the business based on historical and forecasted revenues and operating costs. This, in turn, involves further estimates, such as estimates of future growth rates and inflation rates. In addition, we apply a discount rate to the estimated future cash flows for the purpose of the valuation. This discount rate is based on the estimated weighted average cost of capital for the business and may change from year to year. Weighted average cost of capital includes certain assumptions such as market capital structures, market betas, risk-free rate of return and estimated costs of borrowing. Changes in these key estimates and assumptions, or in other assumptions used in this process, could materially affect our impairment analysis for a given year. Additionally, since our measurement also considers a market approach, changes in comparable public company multiples can also materially impact our impairment analysis.

In the long term, our remaining goodwill and trade name balances could be further impaired in future periods. A number of factors, many of which we have no ability to control, could affect our financial condition, operating results and business prospects and could cause actual results to differ from the estimates and assumptions we employed. These factors include:

- a prolonged global economic crisis;
- a significant decrease in the demand for our products;
- the inability to develop new and enhanced products and services in a timely manner;
- a significant adverse change in legal factors or in the business climate;
- an adverse action or assessment by a regulator; and
- successful efforts by our competitors to gain market share in our markets.

Our cash flow assumptions are based on historical and forecasted revenue, operating costs and other relevant factors. If management's estimates of future operating results change or if there are changes to other assumptions, the estimate of the fair value of our business may change significantly. Such change could result in impairment charges in future periods, which could have a significant impact on our operating results and financial condition.

Defined benefit pension obligations

The funded status of our pension plans is more fully described in Note 9 to our audited consolidated financial statements included in Item 8 of this annual report. As discussed in Note 9, the pension benefit obligation and related pension expense or income are calculated in accordance with ASC 715-30, *Defined Benefit Plans—Pension*, and are impacted by certain actuarial assumptions, including the discount rate and the expected rate of return on plan assets.

Rates are evaluated on an annual basis considering such factors as market interest rates and historical asset performance. Actuarial valuations for fiscal year 2011 used a discount rate of 5.22% and an expected rate of return on plan assets of 7.62%. Our discount rate was selected using a methodology that matches plan cash flows with a selection of Moody's Aa or higher rated bonds, resulting in a discount rate that better matches a bond yield curve with comparable cash flows. In estimating the expected return on plan assets, we study historical markets and preserve the long-term historical relationships between equities and fixed-income securities. We evaluate current market factors such as inflation and interest rates before we determine long-term capital market assumptions and review peer data and historical returns to check for reasonableness and appropriateness. Changes in the discount rate and return on assets can have a significant effect on the funded status of our pension plans, stockholders' equity and related expense. We cannot predict these changes in discount rates or investment returns and, therefore, cannot reasonably estimate whether the impact in subsequent years will be significant.

The funded status of our pension plans is the difference between the projected benefit obligation and the fair value of its plan assets. The projected benefit obligation is the actuarial present value of all benefits expected to be earned by the employees' service adjusted for future potential wage increases.

[Table of Contents](#)

Our funding policy for our pension plans is to contribute amounts at least equal to the minimum annual amount required by applicable regulations. Given this policy, we expect to make \$2.9 million in contributions to our pension plans in 2012.

Allowance for doubtful accounts, excess and obsolete inventory reserves, product warranty reserves and other contingencies

The reserves, if any, for customer rebates, product warranty, product liability, litigation, excess and obsolete inventory and doubtful accounts are fact-specific and take into account such factors as specific customer situations, historical experience, and current and expected economic conditions. These reserves are reflected under Notes 2, 4, 5 and 15 to our audited consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Derivative accounting

We have interest rate swap contracts, or the Swaps, in place to fix a portion of our variable rate indebtedness. For 2007 and 2008, the Swaps were deemed highly effective per ASC 815 and therefore, any changes in fair value of these Swaps is recorded in accumulated other comprehensive income (loss). As of January 3, 2009, in accordance with the terms of our senior secured credit facilities, we changed the interest rate election from three-month LIBOR to one-month LIBOR. As a result, we concluded that as of January 3, 2009, the Swaps no longer met hedge effectiveness criteria under ASC 815. Future changes in the fair value of the Swaps was immediately recognized in our statement of operations as interest expense, while the effective portion of the Swaps prior to the change remained in accumulated other comprehensive income (loss) and was amortized as interest expense over the period of the originally designated hedged transactions which ended on January 4, 2010. New interest rate swap contracts entered into in fiscal 2010 are deemed highly effective per ASC 815.

As required by ASC 815 *Derivatives and Hedging*, we record the Swaps at fair value pursuant to ASC 820 *Fair Value Measurements and Disclosures*, which 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. When determining the fair value of the Swaps, we considered our credit risk in accordance with ASC 820. The fair value of the Swaps, including the impact of credit risk, at December 31, 2011 and 2010 was a liability of \$5.3 million and \$4.1 million, respectively.

Income taxes

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

We have generated significant deferred tax assets as a result of goodwill and intangible asset book versus tax differences as well as significant net operating loss carryforwards. In assessing the realizability of these deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As of September 30, 2011, we were in a three year cumulative loss position and had a full valuation allowance recorded against our net deferred tax assets. In the fourth quarter of 2011, we came out of a three-year cumulative loss position and, as part of the normal assessment of the future realization of our net deferred tax assets, determined that a valuation allowance was no longer required. As a result, the valuation allowance previously recorded was reversed in the fourth quarter of 2011 and was recorded as a component of the income tax provision.

Share based compensation

Under the fair value recognition provisions of ASC 718 *Compensation – Stock Compensation*, share based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Determining the fair value of share based awards at the grant date requires judgment, including estimating expected dividends and market volatility of our stock. In addition, judgment is also required in estimating the amount of share based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share based compensation expense and our results of operations could be impacted.

New Accounting Standards

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2 to the consolidated financial statements in Item 8 of this annual report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign currency

We are exposed to foreign currency exchange risk as a result of purchasing from suppliers in other countries. Periodically, we utilize foreign currency forward purchase and sales contracts to manage the volatility associated with foreign currency purchases in the normal course of business. Contracts typically have maturities of one year or less. Realized and unrealized gains and losses on transactions denominated in foreign currency are recorded in earnings as a component of cost of goods sold. At December 31, 2011 and December 31, 2010, we had no foreign exchange contracts outstanding.

On February 18, 2010, we entered into a ten-month foreign currency average rate option transaction for Euros with a total notional amount of \$2.5 million and a termination date of December 31, 2010. Total losses recognized in the statement of operations for foreign currency contracts were \$100,000. The primary objective of this hedging activity is to mitigate the impact of potential price fluctuations of the Euro on our financial results.

Commodity prices

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

Periodically, we engage in certain commodity risk management activities. The primary objectives of these activities are to understand and mitigate the impact of potential price fluctuations on our financial results. Generally, these risk management transactions will involve the use of commodity derivatives to protect against exposure resulting from significant price fluctuations.

[Table of Contents](#)

We primarily utilize commodity contracts with maturities of one year or less. These are intended to offset the effect of price fluctuations on actual inventory purchases. The primary objective of the hedge is to mitigate the impact of potential price fluctuations of copper on our financial results. As of December 31, 2011, we had the following commodity forward contracts outstanding with the fair value gains losses shown (in thousands):

Hedged Item	Number of Contracts Outstanding	Effective Date	Aggregate Notional Amount	Losses recognized in consolidated statement of operations for the year ended December 31, 2011
Copper	2	October 1, 2011 to June 30, 2012	\$ 6,468	\$ 861

Interest rates

As of December 31, 2011, a portion of the outstanding debt under our term loans was subject to floating interest rate risk. As of this date, we had the following interest rate swap contracts outstanding (in thousands):

Hedged Item	Contract Date	Effective Date	Notional Amount	Fixed LIBOR Rate	Expiration Date
Interest rate	April 1, 2011	October 1, 2012	\$ 100,000	2.22%	October 1, 2013
Interest rate	April 1, 2011	July 1, 2012	\$ 200,000	1.905%	July 1, 2013
Interest rate	June 29, 2010	October 1, 2010	\$ 100,000	1.025%	October 1, 2012
Interest rate	January 21, 2010	July 1, 2010	\$ 200,000	1.73%	July 1, 2012

At December 31, 2011, the fair value of the swaps reduced for our credit risk and excluding related accrued interest was a liability of \$5.3 million. For further information on these swaps, see Note 6 to our audited consolidated financial statements included in Item 8 of this Annual Report on Form 10-K. Even after giving effect to these swaps, we are exposed to risks due to changes in interest rates with respect to the portion of our term loans that are not covered by the swaps. A hypothetical change in the LIBOR interest rate of 100 basis points would have changed annual cash interest expense by approximately \$3.0 million (or, without the swaps in place, \$6.0 million).

We expect to maintain our existing swaps as highly effective in accordance with ASC 815 and, therefore, any changes in the fair value of the swap would be recorded in accumulated other comprehensive income (loss).

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Generac Holdings Inc.

We have audited Generac Holdings Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Generac Holdings Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Magnum Products LLC, which is included in the December 31, 2011 consolidated financial statements of Generac Holdings Inc. and constituted 7% and 12% of total and net assets, respectively, as of December 31, 2011 and 5% and 1% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Generac Holdings Inc. also did not include an evaluation of the internal control over financial reporting of Magnum Products LLC.

In our opinion, Generac Holdings Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of operations, redeemable stock and stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 of Generac Holdings Inc. and our report dated March 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 9, 2012

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Generac Holdings Inc.

We have audited the accompanying consolidated balance sheets of Generac Holdings Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, redeemable stock and stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Generac Holdings Inc. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 9, 2012

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

	December 31,	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 93,126	\$ 78,583
Accounts receivable, less allowance for doubtful accounts of \$789 in 2011 and \$723 in 2010	109,705	63,154
Inventories	162,124	127,137
Deferred income taxes	14,395	–
Prepaid expenses and other assets	3,915	3,645
Total current assets	383,265	272,519
Property and equipment, net	84,384	75,287
Customer lists, net	72,897	96,944
Patents, net	78,167	84,933
Other intangible assets, net	7,306	6,483
Deferred financing costs, net	3,459	5,822
Trade names	148,401	140,050
Goodwill	547,473	527,148
Deferred income taxes	227,363	–
Other assets	78	697
Total assets	\$ 1,552,793	\$ 1,209,883
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 81,053	\$ 41,809
Accrued wages and employee benefits	14,439	6,833
Other accrued liabilities	47,024	38,043
Current portion of long-term debt	22,874	–
Total current liabilities	165,390	86,685
Long-term debt	575,000	657,229
Other long-term liabilities	43,514	24,902
Total liabilities	783,904	768,816
Stockholders' equity:		
Common stock (formerly Class A non-voting common stock), par value \$0.01, 500,000,000 shares authorized, 67,652,812 and 67,524,596 shares issued at December 31, 2011 and 2010, respectively	676	675
Additional paid-in capital	1,142,701	1,133,918
Excess purchase price over predecessor basis	(202,116)	(202,116)
Accumulated deficit	(157,015)	(481,658)
Accumulated other comprehensive loss	(15,357)	(9,752)
Total stockholders' equity	768,889	441,067
Total liabilities and stockholders' equity	\$ 1,552,793	\$ 1,209,883

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2011	2010	2009
Net sales	\$ 791,976	\$ 592,880	\$ 588,248
Costs of goods sold	497,322	355,523	352,398
Gross profit	294,654	237,357	235,850
Operating expenses:			
Selling and service	77,776	57,954	59,823
Research and development	16,476	14,700	10,842
General and administrative	30,012	22,599	14,713
Amortization of intangibles	48,020	51,808	51,960
Trade name write-down	9,389	-	-
Total operating expenses	181,673	147,061	137,338
Income from operations	112,981	90,296	98,512
Other (expense) income:			
Interest expense	(23,718)	(27,397)	(70,862)
Gain on extinguishment of debt	-	-	14,745
Write-off of deferred financing costs related to debt extinguishment	(377)	(4,809)	-
Investment income	110	235	2,205
Costs related to acquisition	(875)	-	-
Other, net	(1,155)	(1,105)	(1,206)
Total other expense, net	(26,015)	(33,076)	(55,118)
Income before provision for income taxes	86,966	57,220	43,394
(Benefit) provision for income taxes	(237,677)	307	339
Net income	324,643	56,913	43,055
Preferential distribution to:			
Series A preferred stockholders	-	(2,042)	(14,151)
Class B common stockholders	-	(12,133)	(100,191)
Beneficial conversion	-	(140,690)	-
Net income (loss) attributable to common stockholders (formerly Class A common stockholders)	\$ 324,643	\$ (97,952)	\$ (71,287)
Net income (loss) per common share - basic:			
Common stock (formerly Class A common stock)	\$ 4.84	\$ (1.65)	\$ (41,111)
Class B common stock	n/a	\$ 505	\$ 4,171
Net income (loss) per common share - diluted:			
Common stock (formerly Class A common stock)	\$ 4.79	\$ (1.65)	\$ (41,111)
Class B common stock	n/a	\$ 505	\$ 4,171
Weighted average common shares outstanding - basic:			
Common stock (formerly Class A common stock)	67,130,356	59,364,958	1,734
Class B common stock	n/a	24,018	24,018
Weighted average common shares outstanding - diluted:			
Common stock (formerly Class A common stock)	67,797,371	59,364,958	1,734
Class B common stock	n/a	24,018	24,018

See notes to consolidated financial statements.

Generac Holdings Inc.
 Consolidated Statements of Redeemable Stock and Stockholders' Equity (Deficit)
 (Dollars in Thousands, Except Share Data)

	Redeemable				Common Stock (formerly Class A Common Stock)		Additional Paid-In Capital	Excess Purchase Price Over Predecessor Basis	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Stockholder Notes Receivable	Total Stockholders' Equity	Comprehensive Income (Loss)
	Series A Preferred Stock		Class B Common Stock		Shares	Amount							
	Shares	Amount	Shares	Amount									
Balance at December 31, 2008	7,835	\$ 78,355	24,018	\$ 765,096	1,736	\$ —	\$ 2,356	\$ (202,116)	\$ (581,626)	\$ (28,650)	\$ (158)	\$ (810,194)	
Amortization of unrealized loss on interest rate swaps	—	—	—	—	—	—	—	—	—	24,222	—	24,222	\$ 24,222
Repayment of stockholder notes receivable	—	—	—	—	—	—	—	—	—	—	129	129	—
Cancellation of stock	—	—	—	—	(118)	—	—	—	—	—	—	—	—
Contribution of capital related to debt extinguishment	1,476	14,754	—	—	—	—	—	—	—	—	—	—	—
Proceeds from shares issued to management and directors	50	497	—	—	—	—	—	—	—	—	—	—	—
Proceeds from shares issued to stockholders	1,950	19,503	—	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	—	43,055	—	—	43,055	43,055
Amortization of restricted stock expense	—	—	—	—	—	—	38	—	—	—	—	38	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	(64)	—	(64)	(64)
													<u>\$ 67,213</u>
Balance at December 31, 2009	11,311	\$ 113,109	24,018	\$ 765,096	1,617	\$ —	\$ 2,394	\$ (202,116)	\$ (538,571)	\$ (4,492)	\$ (29)	\$ (742,814)	
Unrealized loss on interest rate swaps	—	—	—	—	—	—	—	—	—	(4,145)	—	(4,145)	\$ (4,145)
Repayment of stockholder notes receivable	—	—	—	—	—	—	—	—	—	—	29	29	—
Corporate reorganization	(11,311)	(113,109)	(24,018)	(765,096)	28,368,581	284	877,921	—	—	—	—	878,205	—
Beneficial conversion related to Class B Common and Series A Preferred stockholders	—	—	—	—	—	—	(140,690)	—	—	—	—	(140,690)	—
Accumulated accretion related to Class B Common and Series A Preferred stockholders	—	—	—	—	—	—	(303,305)	—	—	—	—	(303,305)	—
Issuance of Common stock (formerly Class A Common stock) resulting from the beneficial conversion and accumulated accretion	—	—	—	—	18,002,337	180	443,815	—	—	—	—	443,995	—
Proceeds from public stock offering	—	—	—	—	20,700,500	207	247,424	—	—	—	—	247,631	—
Net income	—	—	—	—	—	—	—	—	56,913	—	—	56,913	56,913
Share based compensation	—	—	—	—	451,561	5	6,358	—	—	—	—	6,363	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	(1,115)	—	(1,115)	(1,115)
													<u>\$ 51,653</u>
Balance at December 31, 2010	—	—	—	—	67,524,596	\$ 675	\$ 1,133,918	\$ (202,116)	\$ (481,658)	\$ (9,752)	\$ —	\$ 441,067	
Unrealized loss on interest rate swaps, net of tax of \$440	—	—	—	—	—	—	—	—	—	(683)	—	(683)	\$ (683)
Common stock issued under equity incentive plans, net of shares withheld for employee taxes	—	—	—	—	128,216	1	(63)	—	—	—	—	(62)	—
Excess tax benefits from equity awards	—	—	—	—	—	—	200	—	—	—	—	200	—
Share based compensation	—	—	—	—	—	—	8,646	—	—	—	—	8,646	—
Pension liability adjustment, net of tax of \$3,173	—	—	—	—	—	—	—	—	—	(4,922)	—	(4,922)	(4,922)
Net income	—	—	—	—	—	—	—	—	324,643	—	—	324,643	324,643
Balance at December 31, 2011	—	—	—	—	67,652,812	\$ 676	\$ 1,142,701	\$ (202,116)	\$ (157,015)	\$ (15,357)	\$ —	\$ 768,889	\$ 319,038

See notes to consolidated financial statements

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

	Year Ended December 31,		
	2011	2010	2009
Operating activities			
Net income	\$ 324,643	\$ 56,913	\$ 43,055
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation	8,103	7,632	7,715
Amortization	48,020	51,808	51,960
Trade name write-down	9,389	-	-
Gain on extinguishment of debt	-	-	(14,745)
Amortization of deferred finance costs	1,986	2,439	3,417
Write-off of deferred financing costs related to debt extinguishment	377	4,809	-
Amortization of unrealized loss on interest rate swaps	-	-	24,222
Provision for losses on accounts receivable	(7)	(124)	227
Deferred income taxes	(238,170)	-	-
Loss on disposal of property and equipment	10	56	41
Share-based compensation expense	8,646	6,363	38
Net changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(22,235)	(8,621)	11,779
Inventories	(11,224)	(3,151)	280
Other assets	(6,834)	1,177	(1,739)
Accounts payable	18,517	7,896	(20,886)
Accrued wages and employee benefits	6,516	(197)	1,280
Other accrued liabilities	21,975	(12,519)	(32,037)
Net cash provided by operating activities	169,712	114,481	74,607
Investing activities			
Proceeds from sale of property and equipment	14	76	69
Expenditures for property and equipment	(12,060)	(9,631)	(4,525)
Collections on receivable notes	-	-	105
Acquisition of business, net of cash acquired	(83,907)	(1,649)	-
Net cash used in investing activities	(95,953)	(11,204)	(4,351)
Financing activities			
Stockholders' contributions of capital – Series A preferred stock	-	-	20,000
Payment of expenses incurred in advance of stock issuance	-	-	(678)
Proceeds from issuance of common stock	-	248,309	-
Excess tax benefits from equity awards	200	-	-
Taxes paid related to the net share settlement of equity awards	(371)	-	-
Proceeds from exercise of stock options	310	-	-
Payment of long-term debt	(59,355)	(434,310)	(9,500)
Net cash provided by (used in) financing activities	(59,216)	(186,001)	9,822
Net increase (decrease) in cash and cash equivalents	14,543	(82,724)	80,078
Cash and cash equivalents at beginning of period	78,583	161,307	81,229
Cash and cash equivalents at end of period	\$ 93,126	\$ 78,583	\$ 161,307
Supplemental disclosure of cash flow information			
Cash paid during the period			
Interest	\$ 24,264	\$ 36,796	\$ 75,601
Income taxes	437	322	383
Supplemental disclosure of noncash financing and investing activities			
Contributions of capital related to debt extinguishment	\$ -	\$ -	\$ 14,754

See notes to consolidated financial statements



Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

1. Description of Business

Generac Holdings Inc. (the Company) owns all of the common stock of Generac Acquisition Corp., which in turn, owns all of the common stock of Generac Power Systems, Inc. (the Subsidiary). The Company is a leading designer and manufacturer of a wide range of generators and other engine powered products for the residential, light-commercial, industrial and construction markets.

Initial Public Offering and Conversion of Class B Common Stock and Series A preferred Stock

On February 17, 2010, the Company completed its initial public offering (IPO) of 18,750,000 shares of our common stock at a price of \$13.00 per share. Prior to completion of the IPO, the Company completed a 3.294 for 1 reverse stock split for Class A common and Class B common shares outstanding. In addition, the underwriters exercised their over-allotment option outlined in the underwriters agreement, and purchased an additional 1,950,500 shares of the Company's common stock on March 18, 2010. The Company received approximately \$269,100,000 in gross proceeds from the IPO and over-allotment exercise, or \$247,631,000 in net proceeds after deducting the underwriting discount and total expenses related to the offering. Upon closing of the IPO, all shares of convertible Class B Common stock and Series A preferred stock were automatically converted into 88,476,530 and 19,511,018 Class A Common shares, respectively. The 88,476,530 shares of Class A Common stock was subject to a 3.294 for 1 reverse stock split, resulting in 26,859,906 Class A Common shares relative to the Class B Common stock conversion. Subsequent to the IPO, the Company has one class of common stock.

Capitalization summary upon closing of initial public offering:

Class A Common stock issued and outstanding as of December 31, 2009 after the 3.294 for 1 reverse stock split	1,617
Conversion and 3.294 for 1 reverse stock split of Class B Common stock into Common stock upon closing of IPO	26,859,906
Conversion of Series A Preferred stock into Common stock upon closing of IPO	19,511,018
Sales of Common stock through IPO	18,750,000
Issuance of non-vested and fully vested Common stock upon closing of IPO	456,249
Common stock issued and outstanding after IPO	65,578,790
Issuance of Common stock to underwriters due to exercise of over-allotment	1,950,500
Total Common stock issued and outstanding as of March 18, 2010	<u>67,529,290</u>

The Company determined that the conversion features in the Class B Common stock and Series A Preferred stock were in-the-money at the date of issuance and therefore represent a beneficial conversion feature. Since the Class B Common stock and Series A Preferred stock were convertible upon an initial public offering, conversion was contingent upon a future event and therefore the beneficial conversion feature had not been recorded in the consolidated financial statements as of December 31, 2009. The beneficial conversion feature at the IPO date was \$140,690,000 and was recorded at the IPO date as a return to Class B Common and Series A Preferred stockholders analogous to a dividend. The beneficial conversion was recorded within additional paid-in-capital, as no retained earnings were available.

2. Significant Accounting Policies

Principles of Consolidation

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

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company maintains the majority of its cash in one commercial bank in multiple operating and investment accounts. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured.

One customer accounted for approximately 12% and 11% of accounts receivable at December 31, 2011 and December 31, 2010, respectively. No one customer accounted for greater than 10% of net sales during the years ended December 31, 2011, 2010, or 2009.

Accounts Receivable

Receivables are recorded at their face value amount less an allowance for doubtful accounts. The Company estimates and records an allowance for doubtful accounts based on specific identification and historical experience. The Company writes off uncollectible accounts against the allowance for doubtful accounts after all collection efforts have been exhausted. Sales are generally made on an unsecured basis.

Inventories

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out method.

Property and Equipment

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets, which are summarized below (in years). Costs of leasehold improvements are amortized over the lesser of the term of the lease (including renewal option periods) or the estimated useful lives of the improvements.

Land improvements	15
Buildings and improvements	20 – 40
Leasehold improvements	10 – 20
Machinery and equipment	5 – 10
Dies and tools	3 – 5
Vehicles	3 – 5
Office equipment	3 – 10

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

Customer Lists, Patents, and Other Intangible Assets

The following table summarizes intangible assets by major category as of December 31, 2011 and 2010 (dollars in thousands):

	Weighted Average Amortization Years	2011			2010		
		Cost	Accumulated Impairment	Amortized Cost	Cost	Accumulated Impairment	Amortized Cost
Indefinite lived intangible assets							
Trade names		\$ 157,790	\$ (9,389)	\$ 148,401	\$ 140,050	\$ -	\$ 140,050
Finite lived intangible assets							
Trade names	0	8,715	(8,715)	-	8,715	(8,715)	-
Customer lists	7	272,050	(199,153)	72,897	257,310	(160,366)	96,944
Patents	15	118,881	(40,714)	78,167	117,811	(32,878)	84,933
Unpatented technology	11	13,165	(6,325)	6,840	11,015	(5,065)	5,950
Software	8	1,014	(650)	364	1,014	(524)	490
Non-compete	5	113	(11)	102	43	-	43
Total finite lived intangible assets		413,938	(255,568)	158,370	395,908	(207,548)	188,360

Amortization of intangible assets was \$48,020,000 in 2011, \$51,808,000 in 2010 and \$51,960,000 in 2009. During the fourth quarter of 2011, the Company wrote down its indefinite lived intangible assets related to trade names. See the Goodwill and Other Indefinite-Lived Intangible Assets section for further discussion. Estimated amortization expense each year for the five years subsequent to December 31, 2011 is as follows: 2012, \$45,660,000; 2013, \$23,787,000; 2014, \$16,389,000; 2015, \$15,184,000; 2016, \$13,578,000.

Deferred Financing Costs

Costs incurred in connection with the issuance of long-term debt have been capitalized and are being amortized using the effective interest rate method over the life of the related debt agreements. Deferred financing costs incurred related to debt financing totaled \$29,571,000. Amortization expense was \$1,986,000, \$2,439,000, and \$3,417,000 for the years ended December 31, 2011, 2010, and 2009, respectively. The Company wrote off \$377,000 and \$4,809,000 of the deferred financing costs in 2011 and 2010, respectively, as a result of debt repayments made throughout the year. As a result of the debt extinguishments in 2009 (see Note 6), \$398,000 of the deferred financing costs were written off and were recorded as a reduction to the gain on the extinguishment of debt. Accumulated amortization was \$26,112,000 and \$23,749,000 at December 31, 2011 and 2010, respectively. Amortization expense is included in interest expense in the consolidated statements of operations. As of December 31, 2011, estimated amortization expense each year for the two years subsequent to December 31, 2011 is as follows: 2012, \$1,859,000, 2013, \$1,600,000. Based on this timeline, deferred financing costs would be fully amortized in 2013.

The Company refinanced its revolving credit facility and credit agreement, outstanding as of December 31, 2011, on February 9, 2012. Please refer to Note 16 for further details.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)**Long-Lived Assets**

The Company periodically evaluates the carrying value of long-lived assets (excluding goodwill and trade names). Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of an asset, a loss is recognized for the difference between the fair value and carrying value of the asset. Such analyses necessarily involve significant judgments.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill represents the excess of the amount paid to acquire the Company over the estimated fair value of the net tangible and intangible assets acquired as of the acquisition date.

Other indefinite-lived intangible assets consist of trade names. The fair value of trade names was measured using a relief-from-royalty approach, which assumes the fair value of the trade name is the discounted cash flows of the amount that would be paid had the Company not owned the trade name and instead licensed the trade name from another company.

The Company performs an annual impairment test for goodwill and trade names and more frequently if an event or circumstances indicate that an impairment loss has been incurred. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset. The analysis of potential impairment of goodwill requires a two-step process. The first step is the estimation of fair value of the applicable reporting unit. Estimated fair value is based on management judgments and assumptions and those fair values are compared with the aggregate carrying value of the respective reporting unit. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the carrying value of the reporting unit is greater than the fair value, then the second step must be completed to measure the amount of impairment, if any. The second step calculates the implied fair value of the goodwill, which is compared to its carrying value. If the implied fair value is less than the carrying value, an impairment loss is recognized equal to the difference.

The Company performed the required annual impairment tests for fiscal years 2011, 2010 and 2009 and found no impairment of goodwill. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings.

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are as follows (dollars in thousands):

	Year ended December 31, 2011			Year ended December 31, 2010		
	Gross	Accumulated Impairment	Net Goodwill	Gross	Accumulated Impairment	Net Goodwill
Balance at beginning of year	\$ 1,030,341	\$ 503,193	\$ 527,148	\$ 1,029,068	\$ 503,193	\$ 525,875
Acquisition of a business	20,325	—	20,325	1,273	—	1,273
Balance at end of year	<u>\$ 1,050,666</u>	<u>\$ 503,193</u>	<u>\$ 547,473</u>	<u>\$ 1,030,341</u>	<u>\$ 503,193</u>	<u>\$ 527,148</u>

The Company completed an acquisition of a business on October 3, 2011 for \$85,490,000, net of cash acquired and inclusive of estimated earn-out payments, which resulted in additional goodwill of \$20,337,000. The Company also completed an acquisition of a business on December 31, 2010 for \$1,600,000, net of cash acquired, which resulted in net additional goodwill of \$1,261,000. The Company initially recorded goodwill of \$1,273,000 as of December 31, 2010, based upon the results of a preliminary purchase price allocation. Finalization of this purchase price allocation in 2011 resulted in an adjustment to goodwill of \$(12,000). Both goodwill amounts are deductible for tax purposes.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

During the fourth quarter of 2011, the Company decided to strategically transition certain products to their more widely known Generac brand. Based on this decision, the Company recorded a \$9,389,000 non-cash charge which primarily related to the write down of the impacted trade name to net realizable value. In addition, the Company performed its annual fair value-based impairment test as of October 31, 2011. Except as noted, no impairment was indicated.

The Company performed its annual fair value-based impairment test on indefinite lived trade names as of October 31, 2010 and 2009. No impairment was indicated.

Income Taxes

The Company is a C Corporation and, therefore, accounts for income taxes pursuant to the liability method. Accordingly, the current or deferred tax consequences of a transaction are measured by applying the provision of enacted tax laws to determine the amount of taxes payable currently or in future years. Deferred income taxes are provided for temporary differences between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies, as appropriate, in making this assessment.

Revenue Recognition

Sales, net of estimated returns and allowances, are recognized upon shipment of product to the customer, which is when title passes, the Company has no further obligations, and the customer is required to pay. The Company, at the request of certain customers, will warehouse inventory billed to the customer but not delivered. The Company does not recognize revenue on these transactions until the customers take possession of the product. The funds collected on product warehoused for these customers are recorded as a customer advance until the customer takes possession of the product and the Company's obligation to deliver the goods is completed. Customer advances are included in accrued liabilities in the accompanying consolidated balance sheets.

The Company provides for estimated sales promotion and incentive expenses which are recognized as a reduction of sales.

Historically, product returns, whether in the normal course of business or resulting from repurchases made under a floor plan financing program, have not been material.

Shipping and Handling Costs

Shipping and handling costs billed to customers are included in net sales, and the related costs are included in cost of goods sold in the consolidated statements of operations.

Advertising and Co-Op Advertising

Expenditures for advertising, included in selling and service expenses in the accompanying consolidated statements of operations, are expensed as incurred. Total expenditures for advertising were \$11,742,000, \$11,985,000, and \$11,695,000 for the years ended December 31, 2011, 2010, and 2009, respectively.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

Research and Development

The Company expenses research and development costs as incurred. Total expenditures incurred for research and development were \$16,476,000, \$14,700,000, and \$10,842,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Foreign Currency Transactions

Realized and unrealized gains and losses on transactions denominated in foreign currency are recorded in earnings as a component of cost of goods sold.

Accumulated Other Comprehensive Income (Loss)

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

	December 31,	
	2011	2010
Pension liability	\$ (10,529)	\$ (5,607)
Unrealized losses on cash flow hedges	(4,828)	(4,145)
Accumulated other comprehensive loss	<u>\$ (15,357)</u>	<u>\$ (9,752)</u>

Fair Value of Financial Instruments

The Company believes the carrying amount of its financial instruments (cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities), excluding long-term debt, approximates the fair value of these instruments based upon their short-term nature. The fair value of long-term debt was approximately \$593.4 million (level 2) at December 31, 2011, as calculated based on current quotations.

Fair Value Measurements

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

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

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

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

	Fair Value Measurement Using		
	Total December 31, 2011	Quoted Prices in Active Markets for Identical Contracts (Level 1)	Significant Other Observable Inputs (Level 2)
Interest rate swaps	\$ (5,268)	\$ –	\$ (5,268)
Commodity contracts	\$ (373)	\$ –	\$ (373)

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

The valuation techniques used to measure the fair value of derivative contracts classified as level 2, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. The fair value of derivative contracts above considers the Company's credit risk in accordance with ASC 820-10. Excluding the impact of credit risk, the fair value of derivatives at December 31, 2011 and 2010 was \$5,780,000 (liability) and \$3,642,000 (liability), respectively, and this represents the amount the Company would need to pay to exit the agreements on this date.

Use of Estimates

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

Derivative Instruments and Hedging Activities

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

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

Commodities

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

The Company primarily utilizes commodity contracts with maturities of less than 12 months. These are intended to offset the effect of price fluctuations on actual inventory purchases. There were two, one, and one outstanding commodity contracts in place to hedge its projected commodity purchases at December 31, 2011, 2010, and 2009, respectively. In October 2009, the Company entered into commodity swaps to purchase \$1,432,000 of copper. The swaps were effective from October 5, 2009, and terminated on March 31, 2010. In November 2010, the Company entered into a commodity swap to purchase \$2,296,000 of copper. The swap was effective from January 1, 2011, and terminated on April 30, 2011. In February 2011, the Company entered into a commodity forward contract to purchase a notional amount of \$2,378,000 of copper. The contract was effective from March 1, 2011, and terminated on December 31, 2011. In March 2011, the Company entered into a commodity forward contract to purchase a notional amount of \$2,100,000 of copper. The contract was effective from April 1, 2011, and terminated on December 31, 2011. In May 2011, the Company entered into a commodity forward contract to purchase a notional amount of \$1,808,000 of copper. The contract was effective from May 5, 2011, and terminated on December 31, 2011. In September 2011, the Company entered into two new commodity forward contracts to purchase notional amounts of \$4,533,000 and \$1,935,000 of copper. The contracts are effective from October 1, 2011, and terminate on June 30, 2012. Total losses or gains recognized in the consolidated statements of operations on commodity contracts were a loss of \$861,000, a gain of \$1,056,000, and a gain of \$387,000 for the years ended December 31, 2011, 2010, and 2009, respectively.

Foreign Currencies

The Company is exposed to foreign currency exchange risk as a result of transactions in other currencies. The Company periodically utilizes foreign currency forward purchase and sales contracts to manage the volatility associated with foreign currency purchases in the normal course of business. Contracts typically have maturities of one year or less. There were no foreign currency hedge contracts outstanding as of December 31, 2011 or 2010. There was one Euro currency contract outstanding during 2010 that expired on December 31, 2010. A loss of \$100,000 was recognized in the consolidated statements of operations for the year ended December 31, 2010 related to this Euro contract.

Interest Rates

The Company has four interest rate swap agreements outstanding as of December 31, 2011 with a notional amount of \$300,000,000. In 2010, the Company entered into two interest rate swap agreements and had formally documented all relationships between interest rate hedging instruments and hedged items, as well as its' risk-management objectives and strategies for undertaking various hedge transactions. The first was entered into on January 21, 2010. The effective date of this swap was July 1, 2010 with a notional amount of \$200,000,000, a fixed LIBOR rate of 1.73% and an expiration date of July 1, 2012. The second was entered into on June 29, 2010. The effective date of that swap was October 1, 2010 with a notional amount of \$100,000,000, a fixed LIBOR rate of 1.025% and an expiration date of October 1, 2012. The Company entered into two interest rate swap agreements on April 1, 2011. The effective date of the first swap is July 1, 2012 with a notional amount of \$200,000,000, a fixed LIBOR rate of 1.905% and an expiration date of July 1, 2013. The effective date of the second swap is October 1, 2012 with a notional amount of \$100,000,000, a fixed LIBOR rate of 2.22% and an expiration date of October 1, 2013. The Company maintains the swaps as highly effective in accordance with ASC 815 and, therefore, any changes in the fair value of the swap would be recorded in accumulated other comprehensive income (loss). These cash flow hedges are recorded at fair value with a corresponding entry recorded in accumulated other comprehensive income (loss) as swaps are highly effective.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

In 2006, the Company entered into various interest rate swap agreements. The Company had formally documented all relationships between interest rate hedging instruments and hedged items, as well as its' risk-management objectives and strategies for undertaking various hedge transactions. Effective January 3, 2009, the Company, within the terms of the Credit Agreements (as defined in note 6), changed the interest rate election from three-month LIBOR to one-month LIBOR. As a result of this change, the Company concluded that as of January 3, 2009, the Swaps no longer met hedge effectiveness tests and were therefore, no longer highly effective as a hedge against the impact on interest payments of changes in the LIBOR interest rate. In 2009, the effective portion of the swaps prior to the change was amortized as interest expense over the period of the originally designated hedged transactions. During 2009, changes in the fair value of the swaps were immediately recognized in the consolidated statements of operations as interest expense. These swaps expired on January 4, 2010.

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

	December 31, 2011	December 31, 2010
Derivatives designated as hedging instruments:		
Interest rate swaps	\$ (5,268)	\$ (4,145)
	(5,268)	(4,145)
Derivatives not designated as hedging instruments:		
Commodity contracts	(373)	627
Total derivatives	\$ (5,641)	\$ (3,518)

The fair value of all derivatives not designated as hedging instruments is included in other current liabilities and other assets in the consolidated balance sheets as of December 31, 2011 and 2010, respectively.

The fair value of derivatives designated as hedging instruments included in other current liabilities and other long-term liabilities is \$1,546,000 and \$3,722,000, respectively, as of December 31, 2011. The fair value of all derivatives designated as hedging instruments is included in other long-term liabilities as of December 31, 2010.

The fair value of the derivative contracts considers the Company's credit risk as of December 31, 2011 and 2010. The impact of credit risk on the fair value of derivative contracts at December 31, 2011 and 2010 was \$139,000 and \$124,000, respectively. Excluding the impact of credit risk, the fair value of the derivatives at December 31, 2011 and 2010 was \$5,780,000 (liability) and \$3,642,000 (liability), respectively, and this represents the amount the Company would need to pay to exit the agreements on those dates.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

The following presents the impact of interest rate swaps and commodity contracts on the consolidated statement of operations for the year ended December 31, 2011 and 2010 (dollars in thousands):

	Amount of loss recognized in AOCI for the twelve months ended December 31,			Location of gain (loss) recognized in net income (loss) on ineffective portion of hedges	Amount of loss reclassified from AOCI into net income (loss) for the twelve months ended December 31,			Amount of gain (loss) recognized in net income (loss) on hedges (ineffective portion) for twelve months ended December 31,		
	2011	2010	2009		2011	2010	2009	2011	2010	2009
Derivatives designated as hedging instruments										
Interest rate swaps	\$ (683)	\$ (4,145)	-	Interest expense	-	-	\$ (24,222)	-	-	-
Derivatives not designated as hedging instruments										
Commodity and foreign currency contracts	-	-	-	Cost of goods sold	-	-	-	(861)	956	387
Interest rate swaps	-	-	-	Interest expense	-	-	-	-	-	24,222

There was no impact of derivative instruments on the consolidated statement of operations for the interest rate swaps for the years ended December 31, 2011 and 2010. For the year ended December 31, 2009, the impact of derivative instruments on the consolidated statement of operations for the interest rate swap agreements not designated as hedging instruments was a gain of \$24,222,000. During the years ended December 31, 2011, 2010 and 2009, the impact of derivative instruments on the consolidated statement of operations for the commodity and foreign currency contracts not designated as hedging instruments were net losses of \$861,000, net gains of \$956,000 and net gains of \$387,000, respectively.

Stock-Based Compensation

The Company accounts for its restricted stock awards and other stock-based payments in accordance with ASC Topic 718 Compensation – Stock Compensation.

Segment Reporting

The Company operates in and reports as a single operating segment, which is the design and manufacture of a wide range of power products. Net sales are predominantly generated through the sale of generators and other engine powered products through various distribution channels. The Company manages and evaluates its operations as one segment primarily due to similarities in the nature of the products, production processes and methods of distribution. Substantially all of the Company's identifiable assets are located in the United States. The Company's sales in the United States represent approximately 95%, 95%, and 96% of total sales for the years ended December 31, 2011, 2010 and 2009, respectively.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

2. Significant Accounting Policies (continued)

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

	Year ended December 31,		
	2011	2010	2009
Residential power products	\$ 491,016	\$ 372,782	\$ 370,740
Industrial & Commercial power products	250,270	183,555	187,323
Other	50,690	36,543	30,185
Total	<u>\$ 791,976</u>	<u>\$ 592,880</u>	<u>\$ 588,248</u>

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08, "Intangibles - Goodwill and Other (Topic 350), Testing Goodwill for Impairment," which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011 with early adoption permitted. Management does not expect adoption of this ASU to have a material impact on the Company's results of operations, financial position or cash flow.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income: Presentation of Comprehensive Income," which amends current comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, it requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of OCI. The ASU does not change the items that must be reported in OCI. ASU 2011-05 will be effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011 with early adoption permitted. Management does not expect adoption of this ASU to have a material impact on the Company's results of operations, financial position or cash flow.

In May 2011, the FASB issued ASU 2011-04 "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS." The ASU is the result of joint efforts by the FASB and the International Accounting Standards Board ("IASB") to develop a single, converged fair value framework. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands existing disclosure requirements for fair value measurements and makes other amendments. Key additional disclosures include quantitative disclosures about unobservable inputs in Level 3 measures, qualitative information about sensitivity of Level 3 measures and valuation process, and classification within the fair value hierarchy for instruments where fair value is only disclosed in the footnotes but carrying amount is on some other basis. For public companies, the ASU is effective for interim and annual periods beginning after December 15, 2011. Management does not expect adoption of this ASU to have a material impact on the Company's results of operations, financial position or cash flow.

In December 2010, the FASB issued ASU 2010-29 "Disclosure of Supplementary Pro Forma Information for Business Combinations." The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The Company adopted this ASU effective at the beginning of fiscal year 2011, and will apply the ASU prospectively to future business combinations for which the acquisition date is after December 31, 2010, as required. This ASU did have an impact the Company's 2011 consolidated financial statement disclosures.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

3. Acquisitions

On October 3, 2011, a subsidiary of the Company acquired substantially all of the assets and assumed certain liabilities of Magnum Products, LLC and certain of its affiliates (collectively, Magnum) for a purchase price, net of cash acquired and inclusive of estimated earn-out payments, of approximately \$85,490,000. The acquisition was funded solely by cash on the balance sheet.

Magnum is a supplier of powerful, high quality generator powered light towers, mobile generators and combination power units for a variety of industries and specialties including construction, energy, mining, government, military, and special events. Its products are distributed through international, national and regional equipment rental companies, equipment dealers and construction companies. The Magnum business is a strategic fit for the Company as it provides diversification within the existing business, with the introduction of new engine powered products and distribution channels, while also providing opportunities for future revenue and cost synergies. The 2011 consolidated financial statements include the results of Magnum from October 3, 2011 through December 31, 2011.

The purchase price of \$85,490,000 consisted of \$83,907,000 paid in cash at closing and \$1,583,000 recorded as an estimated liability to the sellers for contingent consideration based upon future performance of a particular product line currently in development, as described below. The cash paid at closing included an estimate of acquired working capital. This estimate will be finalized in early 2012 to reflect actual working capital acquired, which could result in a change in the total purchase price at that time.

The Company has recorded a purchase price allocation based on a fair value appraisal by a third party valuation firm. The goodwill ascribed to this acquisition is deductible for tax purposes. A summary of the fair values assigned to the acquired assets is as follows (dollars in thousands):

Accounts receivable	\$ 24,309
Inventory	23,763
Prepaid expenses and other current assets	280
Property and equipment	5,164
Goodwill	20,337
Trade name	17,740
Customer relationships	14,740
Patents	1,070
Other intangible assets	2,220
Trade accounts payable	(20,727)
Accrued expenses	(2,746)
Other long term liabilities	(2,243)
Total cash paid, net of \$30 cash acquired	<u>\$ 83,907</u>

Under the acquisition agreement, the purchase price may be increased based upon the performance of a particular product line for the years 2012 through the second quarter of 2017. Based on performance projections available at the date of the acquisition, the Company has recorded estimated contingent consideration of \$1,583,000 which is the net present value of the earn-out. The contingent consideration is payable periodically during 2012 through 2017, based upon actual future performance. As of December 31, 2011, there have been no changes to our original estimates.

The acquisition has contributed \$38,817,000 and \$3,353,000 of net sales and net income, respectively, for the period from October 3, 2011 to December 31, 2011. Transaction costs of approximately \$876,000 are included in other expense in the consolidated statement of operations for the year ended December 31, 2011.

The following unaudited pro forma information has been prepared as if the Magnum acquisition had been consummated at January 1, 2010. This information is presented for informational purposes only, and is not necessarily indicative of the operating results that would have occurred if the acquisitions had been consummated as of that date. This information should not be used as a predictive measure of our future financial position, results of operations, or liquidity.

	<u>Year ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Net sales	\$ 897,892	\$ 681,278
Net income	334,076	68,369

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

4. Balance Sheet Details

Inventories consist of the following (dollars in thousands):

	December 31,	
	2011	2010
Raw material	\$ 121,098	\$ 66,936
Work-in-process	578	315
Finished goods	45,165	63,945
Reserves for excess and obsolescence	(4,717)	(4,059)
	<u>\$ 162,124</u>	<u>\$ 127,137</u>

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

	December 31,	
	2011	2010
Land and improvements	\$ 5,050	\$ 3,950
Buildings and improvements	52,941	48,986
Machinery and equipment	38,132	32,672
Dies and tools	12,982	11,301
Vehicles	1,026	827
Office equipment	8,380	6,836
Leasehold improvements	44	-
Construction in progress	3,131	-
Gross property and equipment	121,686	104,572
Less accumulated depreciation	(37,302)	(29,285)
Property and equipment, net	<u>\$ 84,384</u>	<u>\$ 75,287</u>

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

	December 31,	
	2011	2010
Accrued commissions	\$ 5,731	\$ 4,578
Accrued interest	3,119	5,018
Accrued warranties – short term	19,187	17,155
Other accrued liabilities	18,987	11,292
	<u>\$ 47,024</u>	<u>\$ 38,043</u>

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

4. Balance Sheet Details (continued)

Other long-term liabilities consist of the following (dollars in thousands):

	December 31,	
	2011	2010
Accrued pension costs	\$ 22,044	15,434
Product warranty obligations	15,193	5,323
Other long-term liabilities	6,277	4,145
	<u>\$ 43,514</u>	<u>\$ 24,902</u>

5. Product Warranty Obligations

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

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

	For the year ended December 31,		
	2011	2010	2009
Balance at beginning of year	\$ 22,478	\$ 20,729	\$ 17,539
Payments, net of extended warranty receipts	(11,195)	(13,178)	(14,208)
Charged to operations	23,097	14,927	17,398
Balance at end of year	<u>\$ 34,380</u>	<u>\$ 22,478</u>	<u>\$ 20,729</u>

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

	December 31,	
	2011	2010
Other accrued liabilities	\$ 19,187	\$ 17,155
Other long-term liabilities	15,193	5,323
Balance at end of year	<u>\$ 34,380</u>	<u>\$ 22,478</u>

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

6. Credit Agreements

The revolving credit facility and credit agreement discussed below were outstanding for all periods presented. The Company refinanced this debt on February 9, 2012. Please refer to Note 16 for further details.

Long-term debt is included in the balance sheets as follows (dollars in thousands):

	December 31,	
	2011	2010
First lien term loan	\$ 604,372	\$ 664,372
Less treasury debt – first lien	6,498	7,143
Less current portion	22,874	-
	<u>\$ 575,000</u>	<u>\$ 657,229</u>

Maturities of long-term debt outstanding at December 31, 2011, are as follows (dollars in thousands):

<u>Year</u>	
2011	\$ --
2012	--
2013	575,000
Total	<u>\$ 575,000</u>

In connection with our debt refinancing on February 9, 2012, the Company paid off \$22,874,000 of debt with available cash on hand. The Company classified this portion of debt as a current liability in the consolidated balance sheet at December 31, 2011.

For all years presented, the Company had credit agreements which provided for borrowings under a revolving credit facility (the Revolving Credit Facility) and two term loans (collectively, the Credit Agreements), which are described further below. The Credit Agreements of the Company were secured by the associated collateral agreements which pledged virtually all assets of the Subsidiary.

Borrowings available under the Revolving Credit Facility were limited to a maximum of \$150,000,000. Availability under the Revolving Credit Facility was reduced by the amount of outstanding undrawn letters of credit. Interest on the Revolving Credit Facility was payable at LIBOR plus 2.5%, or ABR plus 1.5%, as selected by the Company. ABR is the greater of the prime rate or the federal funds rate plus 0.5%. The spreads on these rates would have been reduced as a result of the Company meeting certain financial ratios. As of December 31, 2011, the Company's interest rate on the Revolving Credit Facility was 2.27%. As of December 31, 2011, the Company had \$144,191,000 available under its Revolving Credit Facility and no outstanding borrowings. The Company was required to pay a Revolving Credit Facility commitment fee of 0.375% on the average available unused commitment. The Revolving Credit Facility was scheduled to mature on November 10, 2012, unless terminated earlier under certain conditions contained in the Credit Agreements.

The Credit Agreements provided the Company the ability to issue letters of credit. Outstanding undrawn letters of credit reduced availability under the Company's Revolving Credit Facility. The letters of credit accrued interest at a rate of 2.13%, paid quarterly on the undrawn daily aggregate exposure of the preceding quarter. This rate would have been reduced as a result of the Company meeting certain financial ratios. At December 31, 2011 and 2010, letters of credit outstanding were \$5,809,000 and \$4,334,000, and interest rates were 2.13% and 2.63% respectively.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

6. Credit Agreements (continued)

The principal amount of and the outstanding balance under the First Lien Term Loan (the First Lien) was \$597,874,000 and \$657,229,000 (net of loans held in treasury by the Company) at December 31, 2011 and 2010, respectively. Prior to the 2010 debt repayments, principal payments were due in quarterly installments of \$2,375,000. Interest on the First Lien was payable at LIBOR plus 2.5%, or ABR plus 1.5%, as selected by the Company. At December 31, 2011 and 2010 the Company's interest rate on the First Lien was 2.80% and 2.76%, respectively. The outstanding principal balance was payable on the earlier of November 10, 2013, or the date of termination of the First Lien, whether by its terms, by prepayment, or by acceleration. In addition to scheduled principal payments, the First Lien required an excess cash flow payment each year. The required excess cash flow payment was the amount by which 50% of the excess cash flow (as defined in the credit agreement) generated by the Company in any given year exceeded the principal payments made during that year. The excess cash flow payment was scheduled to be due 125 days after year-end. For the year ending December 31, 2011, as a result of refinancing the Credit Agreement on February 9, 2012, the Company was not required to make an excess cash flow payment. For the year ending December 31, 2010, based on the calculation, the Company was not required to make an excess cash flow payment. For the year ending December 31, 2009, the required excess cash flow payment was \$29,576,000, which was paid in 2010.

In 2010, the Company used net proceeds from its initial public offering and a substantial portion of its cash and cash equivalents to pay down debt. In February 2010, the Company used \$221.6 million in net proceeds from the initial public offering to pay down the second lien term loan in full and to pay down a portion of the first lien term loan. In addition, in March 2010, December 2010, April 2011 and December 2011, the Company used \$138.5 million, \$74.2 million, \$24.7 million and \$34.6 million respectively, of cash and cash equivalents on hand to further pay down the first lien term loan principal. As a result of these debt repayments, the outstanding balance on the first lien credit facility was reduced to \$597.9 million as of December 31, 2011, and the second lien credit facility had been repaid in full and terminated. Also, quarterly installments for principal payments of \$2,375,000 were paid in full for the remainder of the first lien term loan.

The Credit Agreements required the Company, among other things, to meet certain financial and nonfinancial covenants and maintain financial ratios in such amounts and for such periods as set forth therein. The Company was required to maintain a leverage ratio (net debt divided by EBITDA, as defined within the Credit Agreements) of 4.75 as of December 31, 2011. The Company was in compliance with all requirements as of December 31, 2011 and 2010.

The Credit Agreements restricted the circumstances in which distributions and dividends were permitted be paid by its' Subsidiary. Payments could have been made to the Company for certain expenses, and dividends could have been used to repurchase equity interests, subject to an annual limitation. Additionally, the Credit Agreements restricted the aggregate amount of dividends and distributions that could have been paid and required the maintenance of certain leverage ratios.

During 2009, CCMP acquired \$9,898,000 par value of First Lien term loans and \$20,000,000 par value of Second Lien term loans for approximately \$6,459,000 and \$8,296,000 respectively. CCMP exchanged this debt for additional shares of Series A Preferred stock issued by the Company. The Company subsequently contributed all but \$2,000,000 of the Second Lien term loan debt to its Subsidiary. The fair value of the shares exchanged was \$6,459,000 and \$8,296,000 for the First Lien term loan and Second Lien term loan, respectively. These shares have beneficial conversion features which are contingent upon a future event (see Note 6). The Company recorded this transaction as Series A Preferred stock of \$14,754,000 based on the fair value of the debt contributed by CCMP which approximated the fair value of shares exchanged. The debt was held in treasury at face value. Consequently, the Company recorded a gain on extinguishment of debt of \$14,745,000, which included the write-off of deferred financing fees and other closing costs, in the consolidated statement of operations for the year ended December 31, 2009.

Effective January 3, 2009, the Company, within the terms of the Credit Agreements, changed the interest rate election from three-month LIBOR to one-month LIBOR. The Company concluded that as of January 3, 2009, the Swaps no longer met hedge effectiveness tests and were therefore no longer highly effective as a hedge against the impact on interest payments of changes in the LIBOR interest rate. The effective portion of the Swaps prior to the change remained in accumulated other comprehensive income (loss) and was amortized as interest expense over the period of the originally designated hedged transactions through January 3, 2010. Changes in the fair value of the Swaps were immediately recognized in the consolidated statements of operations as interest expense. The Company determined its Swaps met hedge effectiveness tests and were deemed highly effective for hedge accounting under ASC 815 as of December 31, 2008. Accordingly, at December 31, 2008 the change in fair value was recorded in accumulated other comprehensive income (loss) net of tax for the effective portion of the hedges.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

7. Redeemable Stock and Stockholders' Equity (Deficit)

Certain of the current equity investors (affiliates of CCMP Capital Advisors, LLC and related entities, certain other investors, certain members of management of the Subsidiary and board of directors of the Company) had previously acquired a combination of Class A and Class B Common stock and Series A Preferred stock of the Company. General terms of these securities are:

Preferred stock

Series A Convertible Preferred stock: Each Series A Preferred share was entitled to a priority return preference equal to the sum of \$10,000 per share base amount plus an amount sufficient to generate a 14% annual return on that base amount compounded quarterly from the date of issuance until the accreted priority return preference was paid in full. Each Series A Preferred share also participated in any equity appreciation beyond the Series A Preferred priority return (the Series A Equity Participation).

Voting: Series A Preferred shares did not have voting rights, subject to certain limited approval rights.

Distributions: Dividends and other distributions to stockholders in respect of shares, whether as part of an ordinary distribution of earnings, as a leveraged recapitalization or in the event of an ultimate liquidation and distribution of available corporate assets were to be paid to Series A Preferred stockholders as follows: Series A Preferred shares were entitled to receive an amount equal to the Series A Preferred base amount of \$10,000 per share plus an amount sufficient to generate a 14% annual return on that base amount, compounded quarterly from the date in which the Series A Preferred shares were originally issued. Series A Preferred shares then received an equity participation on all remaining proceeds after payment of this priority return to all Series A Preferred stockholders equal to 24.3% of remaining proceeds (Series A Equity Participation). No distribution would be made to any holder of common stock until the Series A Preferred stockholders had received all distributions to which they were entitled as previously described. After such distributions were made to the Series A Preferred stockholders, the holders of common stock were entitled to receive any remaining payments or distributions in accordance with their respective priorities.

Liquidations: Distributions in connection with any liquidation or change of control transaction would be made in accordance with the distributions described above. No distribution would be made to any holder of common stock until the Series A Preferred stockholders had received all distributions to which they were entitled as described above. After such distributions were made to the Series A Preferred stockholders, the holders of common stock would be entitled to receive any remaining payments or distributions in accordance with their respective priorities.

Conversion: Series A Preferred shares automatically converted into Class A common shares at the time of the initial public offering (IPO). Any unpaid Series A preferred return (base \$10,000 per share plus 14% accretion) was converted into additional Class A common shares valued at the IPO price net of underwriter's discount. That is, each Series A Preferred share was converted into a number of Class A common shares equal to (i) a fraction, the numerator of which is the unpaid priority return on such Series A Preferred share and the denominator of which is the value of a Class A common share at the time of conversion plus (ii) the number of Class A common shares required to be issued to satisfy the Series A Equity Participation. The number of shares of Class A common stock which were issued upon conversion of the Series A Preferred was dependent upon the initial public offering price of the Class A common stock on the date of conversion as well as the unpaid priority return of the Series A Preferred stock.

The Series A Preferred were redeemable in a deemed liquidation in the event of a change of control. The redemption features were considered to be outside the control of the Company and therefore, all shares of Series A Preferred stock were recorded outside of permanent equity in accordance with guidance originally issued under EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (codified under Accounting Standards Codification 480, *Distinguishing Liabilities from Equity*). Until the time of the IPO, no adjustment to the carrying value of the Series A Preferred stock securities had been recorded, and the priority returns had not been accreted as a change of control was not probable.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

7. Redeemable Stock and Stockholders' Equity (Deficit) (continued)

Common stock

Class B Convertible common stock: Class B shares participated in the equity appreciation after the Series A Preferred priority return was satisfied. Each Class B share was entitled to a priority return preference equal to the sum of \$10,000 per share base amount plus an amount sufficient to generate a 10% annual return on that base amount compounded quarterly from the date of issue until the Class B priority return preference is paid in full. Each Class B share also participated in any equity appreciation beyond the Class B priority return.

Voting: Each Class B share was entitled to one vote per share on all matters on which stockholders voted.

Class A common stock: Class A shares participated in the equity appreciation after the Class B priority return was satisfied.

Class A shares did not have voting rights, priority preference or any accretion rights.

Distributions: After payment of the priority return to Series A Preferred shareholders previously described above under Preferred Stock, dividends and other distributions that remain available to stockholders in respect of shares, whether as part of an ordinary distribution of earnings, as a leveraged recapitalization or in the event of an ultimate liquidation and distribution of available corporate assets, were to be paid to the common stockholders as follows: Class B shares were entitled to receive an amount equal to the Class B base amount of \$10,000 per share plus an amount sufficient to generate a 10% annual return on that base amount, compounded quarterly from the date in which the Class B shares were originally issued. After payment of this priority return to Class B holders, the holders of Class A shares and Class B shares participated together equally and ratably in any and all distributions by the Company.

Liquidations: Distributions made in connection with any liquidation or change of control transaction would be made in accordance with the distributions previously described above in the preceding paragraph. In addition, any remaining assets after the Class B preferential distribution would be allocated to the Class A and Class B shares as follows: the Class B shares would receive a percentage of the remaining assets equal to the sum of (i) 88% plus (ii) the product of (A) 12% multiplied by (B) one minus a fraction, the numerator of which is the number of issued and outstanding vested shares of Class A shares and the denominator is 9,350.0098. The remainder would be allocated to the Class A shares.

Conversion: Class B shares automatically converted into Class A shares immediately prior to the IPO. Any unpaid Class B Common priority return (base \$10,000 per share plus 10% accretion) was "paid" in additional Class A common shares valued at the IPO price net of underwriter's discount. That is, each Class B share converted into a number of Class A shares required to be issued to satisfy the Class B Common priority return. Each Class B share converted into a number of Class A shares equal to (i) one plus (ii) a fraction, the numerator of which was the unpaid priority return on such Class B share and the denominator of which was the value of a Class A share at the time of conversion, in all cases subject to the priority rights and preferences of the Series A Preferred Shares. The number of shares of Class A common stock which were issued upon conversion of the Class B common stock was dependent upon the initial public offering price of the Class A common stock on the date of conversion as well as the unpaid priority return of the Class B common stock.

The Class B common were redeemable in a deemed liquidation in the event of a change of control. The redemption features were considered to be outside the control of the Company and therefore, all shares of Class B common stock were recorded outside of permanent equity in accordance with guidance originally issued under EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (codified under Accounting Standards Codification 480, *Distinguishing Liabilities from Equity*). Until the time of the IPO, no adjustment to the carrying value of Class B Common stock securities had been recorded, and the priority returns had not been accreted as a change of control was not probable.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

7. Redeemable Stock and Stockholders' Equity (Deficit) (continued)

Accretion: Cumulative accretion on Series A preferred stock and Class B common stock at the time of the IPO on February 17, 2010, was as follows:

	Series A Preferred	Class B Common
Carrying value	\$ 113,109	\$ 765,096
Cumulative accretion	17,006	286,299
	<u>\$ 130,115</u>	<u>\$ 1,051,395</u>

The amounts above do not include the additional base amount of \$25,790,000 on Class B common stock or the impact of Series A Equity Participation on Series A Preferred stock, both of which were recognized as a beneficial conversion at the time of the initial public offering.

The Company determined that the conversion feature in the Class B Common stock was in-the-money at the date of issuance and therefore represented a beneficial conversion feature. Since the Class B Common stock was convertible upon an initial public offering, it was contingent upon a future event and had not been recorded in the consolidated financial statements prior to the IPO. The beneficial conversion feature, which was valued at \$25,790,000 at its commitment date, was recorded at the completion of the IPO on February 10, 2010 as a return to Class B Common stockholders analogous to a dividend. Since no retained earnings were available to pay this dividend at resolution of the contingency, the dividend was charged against additional paid in capital resulting in no net impact. Upon the completion of the IPO on February 10, 2010, the Company recorded the beneficial conversion of \$25,790,000 as a reduction and offsetting increase to additional paid in capital as no retained earnings were available. There was no net impact on additional paid-in-capital.

Management Equity Incentive Plan: On November 10, 2006, the Company adopted the 2006 Management Equity Incentive Plan (2006 Equity Incentive Plan). The 2006 Equity Incentive Plan provided for awards with respect to a maximum of 9,350.0098 Class A Common shares and 5,000 Class B Common shares, subject to certain adjustments. On November 10, 2006, and from time to time thereafter, certain members of management purchased restricted shares of Class A Common stock under the 2006 Equity Incentive Plan for \$341 per share and pursuant to restricted stock agreements. One half of the restricted shares vested over time (Time Vesting Shares), with 25% vesting on November 10, 2007 and on the next three anniversaries thereafter, so long as the participant was still employed by the Company or one of its subsidiaries on the applicable vesting date. Upon the occurrence of a change of control of the Company, any unvested Time Vesting Shares immediately vested in full, so long as the participant was still employed by the Company or one of its subsidiaries. The other half of the restricted shares immediately vested (performance-based vesting) in full, provided the participant was still then employed by the Company or one of its subsidiaries, upon the occurrence of either: (i) a change of control of the Company that provides CCMP with a certain rate of return with respect to net proceeds received by CCMP from their investment in the Company; or (ii) from and after the date of an IPO, the achievement with respect to shares of the Class A Common stock of an average closing trading price exceeding, in any 60 consecutive trading day period starting prior to the later of (a) the fifth year anniversary of the date of grant of the restricted shares, and (b) one year after the IPO, a certain threshold with respect to net proceeds received by CCMP from their investment in the Company. As a condition to the purchase of restricted shares, members of management executed confidentiality, non-competition and intellectual property agreements.

The fair value of the Class A common stock on the date of issuance was estimated to be \$390 per share. The Company recorded \$6,000, and \$38,000, and \$40,000 of stock-based compensation expense related to the Time Vesting Shares in 2010, 2009, and 2008, respectively, related to amortization of the excess of fair value over purchase price of these restricted shares. This excess was being amortized over the vesting provisions of the restricted shares. As a result of the IPO, the remaining unvested performance-based Restricted Shares became fully vested. As a result, the Company has recorded \$159,000 of stock-based compensation expense related to the accelerated vesting in 2010.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

7. Redeemable Stock and Stockholders' Equity (Deficit) (continued)

Issuance and repurchases of securities

Series A Preferred Stock: In September 2009, the Company issued 2,000 shares of the Series A Preferred stock to CCMP and certain members of management and the board of directors, for an aggregate purchase price of \$20,000,000. In December 2009, the Company issued an aggregate of 1,476 shares of Series A Preferred stock to CCMP in exchange for certain term loans under the first and second lien credit facilities that CCMP had purchased. The exchange ratio in connection with the exchange was one share of Series A Preferred stock per \$10,000 of the amount paid by CCMP for the loans that were so exchanged. Such purchased term loans had a cumulative outstanding principal amount equal to \$154,815,000. The equity consideration was less than the outstanding principal amount, therefore a gain on debt extinguishment was recorded. A summary of the exchanges of purchased term loans for Series A Preferred stock by year is as follows (dollars in thousands):

	Number of Shares	Face Value of Debt	Consideration Paid	Gain on Extinguishment of debt
Year ending December 31, 2009	1,476	\$ 29,898	\$ 14,754	\$ 14,745

The Company determined that the conversion feature in the Series A Preferred stock had a contingent beneficial conversion feature at the date of issuance. The Series A Preferred stock was convertible upon an initial public offering and the number of additional Class A Common shares which may be issued was unknown prior to the IPO. Since it was contingent upon a future event, it had not been recorded in the consolidated financial statements prior to the IPO. The beneficial conversion feature, which is the result of the additional Class A shares issued to satisfy the Series A Equity Participation, was recorded at the completion of the initial public offering on February 10, 2010, as a return to Series A Preferred stockholders analogous to a dividend. Since no retained earnings were available to pay this dividend at resolution of the contingency, the dividend was charged against additional paid in capital resulting in no net impact. Upon the completion of the IPO on February 10, 2010, the Company recorded the beneficial conversion of \$114,900,000 as a reduction and offsetting increase to additional paid in capital as no retained earnings were available. There was no net impact on additional paid-in-capital.

8. Earnings Per Share

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

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

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding. Except where the result would be anti-dilutive, diluted earnings per share is calculated by assuming the vesting of unvested restricted stock and the exercise of stock options, as well as their related income tax benefits. The following table reconciles the numerator and the denominator used to calculate basic and diluted earnings per share:

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

8. Earnings Per Share (continued)

	Year ended December 31 ,		
	2011	2010	2009
Net income	\$ 324,643	\$ 56,913	\$ 43,055
Less: accretion of Series A Preferred stock	-	(2,042)	(14,151)
Less: accretion of Class B Common stock	-	(12,133)	(100,191)
Less: beneficial conversion	-	(140,690)	-
Net income (loss) attributable to Common stock (formerly Class A Common stock)	324,643	(97,952)	(71,287)
Income attributable to Class B Common stock	-	12,133	100,191
Net income (loss) per common share - basic:			
Common stock (formerly Class A Common stock)	\$ 4.84	\$ (1.65)	\$ (41,111)
Class B Common stock	n/a	\$ 505	\$ 4,171
Net income (loss) per common share - diluted:			
Common stock (formerly Class A Common stock)	\$ 4.79	\$ (1.65)	\$ (41,111)
Class B Common stock	n/a	\$ 505	\$ 4,171
Weighted average number of shares outstanding – Common Stock (formerly Class A Common stock):			
Basic	67,130,356	59,364,958	1,734
Dilutive effect of equity awards	667,015	-	-
Diluted	67,797,371	59,364,958	1,734
Weighted average number of shares outstanding – Class B Common stock – basic and diluted:	n/a	24,018	24,018

For the year ended December 31, 2010, diluted earnings per share are identical to basic earnings per share because the impact of common stock equivalents on earnings per share is anti-dilutive. Had the impact not been anti-dilutive, the effect of stock compensation awards on weighted average diluted shares outstanding would have been 257,038.

The Series A Preferred and Class B Common stock were only convertible to Class A Common stock immediately prior to an initial public offering. The impact of the conversion of Series A Preferred and Class B Common stock are excluded from diluted earnings per share calculations for 2009 as this contingent event had not yet occurred by the end of 2009. The number of shares of Class A Common stock that were issued upon conversion of the Series A Preferred and Class B Common stock was dependent upon the initial public offering price of the Class A Common stock on the date of conversion of February 10, 2010 as well as the unpaid priority return. The conversion at the time of the IPO, as well as the reverse stock split, resulted in 19,511,018 and 26,859,906 shares of common stock issued for the Series A Preferred stock and Class B Common stock, respectively.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

9. Income Taxes

The Company's provision for income taxes consists of the following (dollars in thousands):

	Year ended December 31,		
	2011	2010	2009
Current:			
Federal	\$ 14,312	\$ –	\$ –
State	1,885	307	339
	<u>16,197</u>	<u>307</u>	<u>339</u>
Deferred:			
Federal	15,632	19,127	15,221
State	1,887	2,831	(12,378)
	<u>17,519</u>	<u>21,958</u>	<u>2,843</u>
Change in valuation allowance	(271,393)	(21,958)	(2,843)
Provision for income taxes	<u>\$ (237,677)</u>	<u>\$ 307</u>	<u>\$ 339</u>

The Company is the taxpaying entity and files a consolidated federal income tax return. Currently, the Company is not under examination by any major taxing jurisdiction to which the Company is subject. The statute of limitation for tax years 2011, 2010, 2009, and 2008 is open, for federal and state income taxes. Additionally, tax year 2007 remains open for examination by certain state taxing authorities.

Significant components of deferred tax assets and liabilities are as follows (dollars in thousands):

	December 31,	
	2011	2010
Deferred tax assets:		
Goodwill and intangible assets	\$ 160,311	\$ 186,014
Accrued expenses	16,572	11,967
Deferred revenue	1,370	1,093
Inventories	2,720	2,733
Pension obligations	8,641	6,059
Stock-based compensation	5,302	2,435
Operating loss and R&D credit carryforwards	50,429	64,436
Interest rate swap	2,065	1,625
Other	719	381
Valuation allowance	–	(271,393)
Total deferred tax assets	<u>248,129</u>	<u>5,350</u>
Deferred tax liabilities:		
Depreciation	5,994	4,780
Prepaid expenses	377	570
Total deferred tax liabilities	<u>6,371</u>	<u>5,350</u>
Net deferred tax asset	<u>\$ 241,758</u>	<u>\$ –</u>

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

9. Income Taxes (continued)

The net current and noncurrent components of deferred taxes included in the consolidated balance sheets are as follows (dollars in thousands):

	December 31,	
	2011	2010
Net current deferred tax assets	\$ 14,395	\$ 15,269
Net long-term deferred tax assets	227,363	256,124
Valuation allowance	—	(271,393)
Net deferred tax assets	<u>\$ 241,758</u>	<u>\$ —</u>

The Company was in a three year cumulative net loss position, due primarily to the 2008 goodwill and tradename impairment write-off, and therefore had not considered expected future taxable income in analyzing the realizability of the deferred tax assets as of December 31, 2010, resulting in a full valuation allowance against these net deferred tax assets. In the fourth quarter of 2011, the Company was no longer in a three-year cumulative loss position and, as part of the normal assessment of the future realization of the net deferred tax assets, determined that a valuation allowance was no longer required. As a result, the valuation allowance was reversed in the fourth quarter of 2011 and the Company recorded as a tax benefit of \$271,393,000.

At December 31, 2011, the Company has federal net operating loss carryforwards of approximately \$127,100,000, which expire between 2027 and 2030, and various state net operating loss carryforwards, which expire between 2016 and 2030.

As a result of ownership changes, Section 382 of the Internal Revenue Code of 1986 as amended and similar state provisions can limit the annual deductions of net operating loss and tax credit carry forwards. Such annual limitations could result in the expiration of net operating loss and tax credit carry forwards before utilization. The Company has no such limitation as of December 31, 2010 and expects no limitation was triggered in 2011. Future ownership changes may result in such a limitation.

A reconciliation of the statutory tax rates and the effective tax rates for the years ended December 31, 2011, 2010 and 2009 are as follows:

	Year ended December 31,		
	2011	2010	2009
U.S. statutory rate	35%	35%	35%
State taxes	4	4	4
Valuation allowance	(312.3)	(38)	(38)
Effective tax rate	<u>(273.3)%</u>	<u>1%</u>	<u>1%</u>

At December 31, 2011 and 2010 the Company has no reserves recorded for uncertain tax positions.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

10. Benefit Plans

Medical and Dental Plan

The Company has a medical and dental benefit plan covering full-time employees of the Company and their dependents. The plan is a partially self-funded plan under which participant claims are obligations of the plan. The plan is funded through employer and employee contributions at a level sufficient to pay for the benefits provided by the plan. The Company's contributions to the plan were \$6,700,000, \$7,300,000, and \$5,900,000 for the years ended December 31, 2011, 2010, and 2009, respectively. The plan maintains individual stop loss insurance policies on the medical portion of \$200,000 to mitigate losses. Balances for the incurred but not yet reported claims, including reported but unpaid claims at December 31, 2011, and 2010, were \$800,000 and \$800,000, respectively. The Company estimates claims incurred but not yet reported each month based on its historical experience, and the Company adjusts its accrual to meet the estimated liability.

Savings Plan

The Company maintains a defined-contribution 401(k) savings plan for virtually all employees who meet certain eligibility requirements. Under the plan, employees may defer receipt of a portion of their eligible compensation.

The Company amended the 401(k) savings plans effective January 1, 2009, to add Company matching and non-elective contributions. The Company may contribute a matching contribution of 50% of the first 6% of eligible compensation of employees. No matching contribution shall be made with respect to employee catch-up contributions. The Company may contribute a non-elective contribution for each plan year after 2008. The contribution will apply to eligible employees employed on December 31, 2008. The rate of the non-elective contribution is determined based upon years of service as of December 31, 2008, and is fixed. Both Company matching contributions and non-elective contributions are subject to vesting. Forfeitures may be applied against plan expenses.

The Company recognized \$2,400,000, \$2,300,000 and \$2,300,000 of expense related to this plan in 2011, 2010 and 2009, respectively.

Pension Plans

The Company has noncontributory salaried and hourly pension plans (combined the Pension Plans) covering substantially all of its employees. The benefits under the salaried plan are based upon years of service and the participants' defined final average monthly compensation. The benefits under the hourly plan are based on a unit amount at the date of termination multiplied by the participant's years of credited service. The Company's funding policy for the Pension Plans is to contribute amounts at least equal to the minimum annual amount required by applicable regulations. The Company elected to freeze the Pension Plans effective December 31, 2008. This resulted in a cessation of all future benefit accruals for both hourly and salary pension plans.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

10. Benefit Plans (continued)

The Company uses a December 31 measurement date for the Pension Plans. Information related to the Pension Plans is as follows (dollars in thousands):

	Year Ended December 31,	
	2011	2010
Accumulated benefit obligation at end of period	\$ 53,467	\$ 46,049
Change in projected benefit obligation		
Projected benefit obligation at beginning of period	\$ 46,049	\$ 41,845
Interest cost	2,369	2,359
Net actuarial loss	6,649	3,138
Benefits paid	(1,600)	(1,293)
Projected benefit obligation at end of period	\$ 53,467	\$ 46,049
Change in plan assets		
Fair value of plan assets at beginning of period	\$ 30,615	\$ 28,128
Actual return on plan assets	623	3,780
Company contributions	1,785	--
Benefits paid	(1,600)	(1,293)
Fair value of plan assets at end of period	\$ 31,423	\$ 30,615
Funded status: accrued pension liability included in other long-term liabilities	\$ (22,044)	\$ (15,434)
Amounts recognized in accumulated other comprehensive income		
Net actuarial (loss)/gain	\$ (13,702)	\$ (5,607)

The estimated actuarial loss for the Pension Plans that was amortized from OCI into net periodic benefit cost during 2011 is \$273,000. The amount in OCI as of December 31, 2011 that is expected to be recognized as a component of net periodic pension expense during the next fiscal year is \$909,000.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

10. Benefit Plans (continued)

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

	Year ended December 31,		
	2011	2010	2009
Components of net periodic pension expense:			
Interest cost	2,369	2,359	2,338
Expected return on plan assets	(2,342)	(2,004)	(1,804)
Amortization of net loss	273	247	240
Net periodic pension expense	\$ 300	\$ 602	\$ 774

Weighted-average assumptions used to determine benefit obligation are as follows:

	December 31,	
	2011	2010
Discount rate	4.65%	5.23%
Rate of compensation increase (1)	n/a	n/a

(1) No compensation increase was assumed, as the plans were frozen effective December 31, 2008.

Weighted-average assumptions used to determine net periodic pension expense are as follows:

	Year ended December 31,		
	2011	2010	2009
Discount rate	5.23%	5.76%	6.28%
Expected long-term rate of return on plan assets	7.62	7.30	7.66
Rate of compensation increase (1)	n/a	n/a	n/a

(1) No compensation increase was assumed as the plans were frozen effective December 31, 2008.

To determine the long-term rate of return assumption for plan assets, the Company studies historical markets and preserves the long-term historical relationships between equities and fixed-income securities consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. The Company evaluates current market factors such as inflation and interest rates before it determines long-term capital market assumptions and reviews peer data and historical returns to check for reasonableness and appropriateness.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

10. Benefit Plans (continued)

The Pension Plan's weighted-average asset allocation at December 31, 2011 and 2010, by asset category, is as follows (dollars in thousands):

Asset Category	Target	December 31, 2011		December 31, 2010	
		Dollars	%	Dollars	%
Fixed Income	24%	7,349	23%	7,385	24%
Domestic equity	49%	15,879	51%	14,967	49%
International equity	17%	4,766	15%	5,211	17%
Real estate	10%	3,429	11%	3,052	10%
Total	100%	\$ 31,423	100%	\$ 30,615	100%

The fair values of the Pension Plan's assets at December 31, 2011 are as follows:

	Total	Quoted prices in active markets for identical asset (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)
Mutual fund	\$ 28,530	\$ 28,530	\$ —	\$ —
Collective trust	2,893	—	2,893	—
Total	\$ 31,423	\$ 28,530	\$ 2,893	\$ —

The fair values of the Pension Plan's assets at December 31, 2010 are as follows:

	Total	Quoted prices in active markets for identical asset (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)
Mutual fund	\$ 28,141	\$ 28,141	\$ —	\$ —
Collective trust	2,474	—	2,474	—
Total	\$ 30,615	\$ 28,141	\$ 2,474	\$ —

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

10. Benefit Plans (continued)

Mutual Funds – This category includes investments in mutual funds that encompass both equity and fixed income securities that are designed to provide a diverse portfolio. The plan’s mutual funds are designed to track exchange indices, and invest in diverse industries. Some mutual funds are classified as regulated investment companies. Investment managers have the ability to shift investments from value to growth strategies, from small to large capitalization funds, and from U.S. to international investments. These investments are valued at the closing price reported on the active market on which the individual securities are traded. These investments are classified within Level 1 of the fair value hierarchy.

Collective Trusts – This category includes public investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the trust. The NAV is based on the value of the underlying assets owned by the trust, minus its liabilities, and then divided by the number of shares outstanding. The NAV of the trust is classified within Level 2 of the fair value hierarchy.

The Company’s target allocation for equity securities and real estate is generally between 65% – 85%, with the remainder allocated primarily to bonds. The Company regularly reviews its actual asset allocation and periodically rebalances its investments to the targeted allocation when considered appropriate.

The Company expects to make estimated contributions of \$2,902,000 to the Pension Plans in 2012.

The following benefit payments are expected to be paid from the Pension Plans (dollars in thousands):

Year	
2012	\$ 1,421
2013	1,525
2014	1,632
2015	1,766
2016	1,865
Years 2017 – 2021	11,548

11. Share Plans

On November 10, 2006, the Company adopted the 2006 Management Equity Incentive Plan (2006 Equity Incentive Plan). The 2006 Equity Incentive Plan provided for awards with respect to a maximum of 9,350.0098 shares of Common stock (formerly Class A Common stock) and 5,000 Class B Common shares, subject to certain adjustments. On November 10, 2006, and from time to time thereafter, certain members of management purchased restricted shares of Class A Common stock under the 2006 Equity Incentive Plan for \$341 per share and pursuant to restricted stock agreements. One half of the restricted shares vested over time (Time Vesting Shares), with 25% vesting on November 10, 2007 and on the next three anniversaries thereafter, so long as the participant was still employed by the Company or one of its subsidiaries on the applicable vesting date. Upon the occurrence of a change of control of the Company, any unvested Time Vesting Shares immediately vested in full, so long as the participant was still employed by the Company or one of its subsidiaries. The remaining restricted shares immediately vested (performance-based vesting) in full, provided the participant was still then employed by the Company or one of its subsidiaries, upon the occurrence of either: (i) a change of control of the Company that provides CCMP with a certain rate of return with respect to net proceeds received by CCMP from their investment in the Company; or (ii) from and after the date of an IPO, the achievement with respect to shares of the Common stock (formerly Class A Common stock) of an average closing trading price exceeding, in any 60 consecutive trading day period starting prior to the later of (a) the fifth year anniversary of the date of grant of the restricted shares, and (b) one year after the IPO, a certain threshold with respect to net proceeds received by CCMP from their investment in the Company. As a condition to the purchase of restricted shares, members of management executed confidentiality, non-competition and intellectual property agreements.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

11. Share Plans (continued)

The fair value of the Class A common stock on the date of issuance was estimated to be \$390 per share. The Company recorded \$6,000 and \$38,000 of stock-based compensation expense related to the Time Vesting Shares in 2010 and 2009, respectively, related to amortization of the excess of fair value over purchase price of these restricted shares. This excess was being amortized over the vesting provisions of the restricted shares. As a result of the IPO, the remaining unvested performance-based Restricted Shares became fully vested. As a result, the Company recorded \$159,000 of stock-based compensation expense related to the accelerated vesting in 2010.

The Company adopted an equity incentive plan on February 10, 2010 in connection with the IPO. At the time of the IPO, 4,341,504 stock options and 456,249 shares of restricted stock and other stock awards were granted to employees and Board members of the Company pursuant to the equity incentive plan. The Company has subsequently granted an additional 204,877 stock options and 80,983 shares of restricted stock and other stock awards to employees and Board members of the Company. Total share-based compensation cost related to the equity incentive plan recognized in the consolidated statement of operations was \$8,646,000 and \$6,198,000 in 2011 and 2010, respectively, net of actual forfeitures, which is recorded in operating expenses in the consolidated statement of operations.

Stock Options - The stock options granted in 2011 have an exercise price of between \$17.75 per share and \$24.73 per share, and the stock options granted in 2010 have an exercise price equal to the IPO price of \$13.00 per share. All stock options vest in equal installments over five years, subject to the grantee's continued employment or service and expire 10 years after the date of grant.

In 2011, the majority of stock option exercises were net-share settled such that the Company withheld shares with value equivalent to the exercise price of the awards plus the employees' minimum statutory obligation for the applicable income and other employment taxes. Total shares withheld were approximately 55,202, and were based on the value of the stock options on the exercise date as determined based upon an average of the Company's high and low stock sales price. Total payments for the employees' tax obligations to the taxing authorities were \$371,000 and \$0 in 2011 and 2010, respectively, and are reflected as a financing activity within the Consolidated Statement of Cash Flows. The net-share settlements had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company.

The Company has agreed to pay these taxes on behalf of the employees in return for the employee returning an equivalent value of options to the Company. This transaction resulted in a decrease of approximately \$371,000 in 2011 to equity on the consolidated balance sheet as the cash payment of the taxes effectively was a repurchase of the stock options previously granted.

The grant-date fair value of each option grant is estimated using the Black-Scholes-Merton option pricing model. The fair value is then amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. Since there is limited history for the Company's stock, expected volatility is calculated based on an analysis of historic and implied volatility measures for a set of peer companies. The average expected life is based on the contractual term of the option using the simplified method. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The compensation expense recognized is net of estimated forfeitures. Forfeitures are estimated based on voluntary termination behavior, as there is not sufficient history of actual share option forfeitures at this time. The weighted-average assumptions used in the Black-Scholes-Merton option pricing model for 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Weighted average grant date fair value	\$ 11.10	\$ 6.84
Assumptions:		
Expected stock price volatility	50%	50%
Risk free interest rate	2.69%	2.94%
Expected annual dividend per share	\$ 0.00	\$ 0.00
Expected life of options (years)	6.5	6.5

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

11. Share Plans (continued)

During the year ended December 31, 2011, the Company updated the estimated forfeiture rates it uses in the determination of its stock-based compensation expense. This change was the result of an assessment that included an analysis of the actual number of equity awards that had been forfeited to date compared to prior estimates and an evaluation of future estimated forfeitures. The Company periodically evaluates its forfeiture rates and updates the rates it uses in the determination of its stock-based compensation expense. The impact of the change to the forfeiture rates on non-cash compensation expense was immaterial for the years ended December 31, 2011 and 2010. A summary of the Company's stock option activity and related information for the three years ended December 31, 2011, is as follows:

	<u>Number of options</u>	<u>Weighted- average exercise price</u>	<u>Average remaining contractual Term (years)</u>	<u>Aggregate intrinsic value (\$ in thousands)</u>
Outstanding as of December 31, 2009	-	\$ -		
Granted	4,366,504	13.02		
Exercised	-	-		
Expired	-	-		
Forfeited	(130,245)	13.00		
Outstanding as of December 31, 2010	<u>4,236,259</u>	13.02	9.1	\$ 13,349
Granted	179,877	21.26		
Exercised	(107,591)	13.00		
Expired	-	-		
Forfeited	-	-		
Outstanding as of December 31, 2011	<u>4,308,545</u>	13.36	8.2	63,193
Exercisable as of December 31, 2011	739,656	13.02	8.1	11,101

Of the 107,591 stock options exercised during the fiscal year 2011, 55,202 shares underlying such exercised options were retained by the Company in a net-share settlement to cover the aggregate exercise price and the required amount of employee withholding taxes.

As of December 31, 2011, there was \$20,028,000 of total unrecognized compensation cost, net of expected forfeitures, related to unvested options. The cost is expected to be recognized over the remaining service period, having a weighted-average period of 3.3 years. Total share-based compensation cost related to the stock options for 2011 and 2010 was \$6,475,000 and \$4,470,000, respectively, which is recorded in operating expenses in the consolidated statement of operations.

Restricted Stock - The restricted stock awards vest in full on the third anniversary of the date of grant, subject to the grantee's continued employment. The fair market value of the award at the time of the grant is amortized to expense over the period of vesting. The fair value of restricted share awards is determined based on the market value of the Company's shares on the grant date. The compensation expense recognized for restricted share awards is net of estimated forfeitures.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

11. Share Plans (continued)

A summary of the Company's restricted share awards activity for the three years ended December 31, 2011 is as follows:

Non-vested Stock Awards	Shares	Weighted-Average Grant-Date Fair Value
Non-vested as of December 31, 2009	-	\$ -
Granted	439,999	13.02
Vested	-	-
Forfeited	(9,844)	(13.00)
Non-vested as of December 31, 2010	430,155	13.02
Granted	59,147	20.59
Vested	-	-
Forfeited	-	-
Non-vested as of December 31, 2011	<u>489,302</u>	\$ 13.93

As of December 31, 2011, there was \$2,900,000 of total unrecognized compensation cost, net of expected forfeitures, related to non-vested stock awards. That cost is expected to be recognized over the remaining service period, having a weighted-average period of 1.7 years. Total share-based compensation cost related to the restricted stock for 2011 and 2010 was \$1,871,000 and 1,447,000, respectively, which is recorded in operating expenses in the consolidated statement of operations.

During 2011 and 2010, 16,680 and 21,406 shares, respectively, of fully vested stock were granted to certain members of the Company's board of directors as a component of their compensation for their service on the board. Total compensation cost for these share grants in 2011 and 2010 was \$300,000 and \$281,000, respectively, which is recorded in operating expenses in the consolidated statement of operations.

12. Commitments and Contingencies

The Company leases certain computer equipment, automobiles, and warehouse space under operating leases with initial lease terms ranging up to three years.

The approximate aggregate minimum rental commitments at December 31, 2011, are as follows (dollars in thousands):

Year	Amount
2012	\$ 479
2013	443
2014	375
2015	28
2016	-
Total	<u>\$ 1,325</u>

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

12. Commitments and Contingencies (continued)

Total rent expense for the years ended December 31, 2011, 2010 and 2009, which includes short-term data processing equipment rentals, was approximately \$1,309,000, \$554,000, and \$347,000, respectively.

The Company has an arrangement with a finance company to provide floor plan financing for selected dealers. The Company receives payment from the finance company after shipment of product to the dealer. The Company participates in the cost of dealer financing up to certain limits. The Company has agreed to repurchase products repossessed by the finance company, but does not indemnify the finance company for any credit losses they incur. The amount financed by dealers which remained outstanding under this arrangement at December 31, 2011 and 2010 was approximately \$10,035,000 and 9,735,000, respectively.

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

13. Related-Party Transactions

Prior to the IPO, the Company had an agreement to pay CCMP and certain other investors and related entities an annual advisory fee of \$500,000. The Company expensed \$55,000 in advisory fees for 2010, and \$500,000 in advisory fees for 2009. This agreement was terminated effective with the IPO on February 10, 2010.

14. Quarterly Financial Information (Unaudited)

Unaudited quarterly financial information for the years ended December 31, 2011 and 2010, (in thousands, except per share data):

	Quarters Ended 2011			
	Q1	Q2	Q3	Q4
Net sales	\$ 123,981	\$ 161,363	\$ 239,324	\$ 267,308
Gross profit	47,177	60,353	88,659	98,465
Operating income	11,143	21,800	44,178	35,860
Net income	4,844	15,289	37,379	267,131
Net income per common share, basic:	\$ 0.07	\$ 0.23	\$ 0.56	\$ 3.98
Net income per common share, diluted:	\$ 0.07	\$ 0.23	\$ 0.55	\$ 3.91
	Quarters Ended 2010			
	Q1	Q2	Q3	Q4
Net sales	\$ 130,718	\$ 140,455	\$ 160,666	\$ 161,041
Gross profit	51,418	54,745	67,362	63,832
Operating income	15,464	18,854	29,770	26,208
Net income	2,468	12,834	22,998	18,613
Less: accretion of Series A preferred stock	(2,042)	-	-	-
Less: accretion of Class B common stock	(12,133)	-	-	-
Less: beneficial conversion	(140,690)	-	-	-
Net (loss) income attributable to Common Stock (formerly Class A Common Stock)	(152,397)	12,834	22,998	18,613
Income attributable to Class B common stock	12,133	-	-	-
Net (loss) income per common share, basic:				
Common stock (formerly Class A Common stock)	\$ (4.26)	\$ 0.19	\$ 0.34	\$ 0.28
Class B common stock	\$ 505	-	-	-
Net (loss) income per common share, diluted:				
Common stock (formerly Class A Common stock)	\$ (4.26)	\$ 0.19	\$ 0.34	\$ 0.28
Class B common stock	\$ 505	-	-	-

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

15. Valuation and Qualifying Accounts

For the years ended December 31, 2011, 2010 and 2009 (dollars in thousands):

	Balance at Beginning of Period	Reserves Assumed in Acquisition	Additions Charged to Earnings	Charges to Reserve, Net (1)	Balance at End of Year
Year ended December 31, 2011					
Allowance for doubtful accounts	\$ 723	\$ 171	\$ (7)	\$ (98)	\$ 789
Reserves for inventory	4,059	657	1,092	(1,091)	4,717
Valuation of deferred tax assets	271,393	-	(271,393)	-	-
Year ended December 31, 2010					
Allowance for doubtful accounts	\$ 1,016	-	\$ (124)	\$ (169)	\$ 723
Allowance for doubtful notes	965	-	-	(965)	-
Reserves for inventory	3,937	-	1,056	(934)	4,059
Valuation of deferred tax assets	289,529	-	(18,136)	-	271,393
Year ended December 31, 2009					
Allowance for doubtful accounts	\$ 1,020	-	\$ 227	\$ (231)	\$ 1,016
Allowance for doubtful notes	965	-	-	-	965
Reserves for inventory	4,908	-	548	(1,519)	3,937
Valuation of deferred tax assets	292,372	-	(2,843)	-	289,529

(1) Deductions from the allowance for doubtful accounts equal accounts receivable written off, less recoveries, against the allowance. Deductions from the reserves for inventory excess and obsolete items equal inventory written off against the reserve as items were disposed of. Deductions to the valuation of deferred tax assets relate to the reversals due to changes in management's judgments regarding the future realization of the underlying deferred tax assets.

16. Subsequent Events

The Company evaluated its financial statements for subsequent events through the date the financial statements were available to be issued. The Company is not aware of any subsequent events which require recognition or disclosure in the financial statements, except as disclosed below.

Acquisition of Gen-Tran Corporation - On February 1, 2012, a subsidiary of the Company acquired substantially all of the assets and assumed certain liabilities of Gen-Tran Corporation, a leading transfer switch and portable generator accessory manufacturer located in Alpharetta, GA. The acquisition is not material to the Company's consolidated financial statements.

Generac Holdings Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2011, 2010, and 2009

16. Subsequent Events (continued)

Refinancing of Revolving Credit Facility and Credit Agreement - On February 9, 2012, a subsidiary of the Company (the "Borrower") entered into a new credit agreement with certain commercial banks and other lenders. The new credit agreement provides for borrowings under a new \$150.0 million revolving credit facility, a \$325.0 million tranche A term loan facility and a \$250.0 million tranche B term loan facility. The new revolving credit facility and tranche A term loan facility mature February 9, 2017, and the tranche B term loan facility matures February 9, 2019.

Proceeds received by the Company from loans made under the new credit agreement were used to repay in full all outstanding borrowings under the former credit agreement, dated as of November 10, 2006, as amended from time to time, and for general corporate purposes. The Company's former credit facility is comprised of a revolving credit facility and a first-lien term loan, which were scheduled to mature in November 2012 and November 2013, respectively.

The new borrowings are secured by associated collateral agreements which pledge virtually all assets of the Borrower. The new credit agreement requires the Borrower, among other things, to meet certain financial and nonfinancial covenants and maintain a consolidated net leverage ratio not exceeding certain agreed levels and an interest coverage ratio not to decline below certain agreed levels.

The new revolving credit facility and tranche A term loan facility initially bear interest at rates based upon either a base rate plus an applicable margin of 1.25% or adjusted LIBOR rate plus an applicable margin of 2.25%. The tranche B term loan facility bears interest at rates based upon either a base rate (which, with respect to such tranche B term loan facility, will not be less than 2.00%) plus an applicable margin of 1.75% or adjusted LIBOR rate (which, with respect to such tranche B term loan facility, will not be less than 1.00%) plus an applicable margin of 2.75%. In subsequent periods, the new revolving credit facility and the Tranche A term loan facility will bear interest at rates based upon either a base rate plus an applicable margin ranging from 0.75% to 1.50% or adjusted LIBOR rate plus an applicable margin ranging from 1.75% to 2.50%, each determined based on a leverage ratio.

The new credit agreement restricts the circumstances in which distributions and dividends can be paid by the Borrower. Payments can be made by the Borrower to the Company for certain expenses such as operating expenses in the ordinary course and dividends can be used to repurchase equity interests, subject to limitation in certain circumstances. Additionally, the new credit agreement restricts the aggregate amount of dividends and distributions that can be paid and, in certain circumstances, requires the maintenance of certain leverage ratios in order to pay certain dividends or distributions.

The new credit agreement contains customary events of default, including, among others, nonpayment of principal, interest or other amounts, failure to perform covenants, inaccuracy of representations or warranties in any material respect, cross-defaults with other material indebtedness, certain undischarged judgments, the occurrence of certain ERISA or bankruptcy or insolvency events or the occurrence of a change in control (as defined in the new credit agreement). Upon an event of default under the new credit agreement, the lenders may declare the loans and all other obligations under the new credit agreement immediately due and payable and require the Borrower to cash collateralize the outstanding letter of credit obligations. A bankruptcy or insolvency event causes such obligations to automatically become immediately due and payable.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There were no changes in, or disagreements with, accountants reportable herein.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has conducted an evaluation of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in providing reasonable assurance that the information required to be disclosed in this report on Form 10-K has been recorded, processed, summarized and reported as of the end of the period covered by this report on Form 10-K.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements.

There are inherent limitations to the effectiveness of any internal control over financial reporting, including the possibility of human error or the circumvention or overriding of the controls. Accordingly, even an effective internal control over financial reporting can provide only reasonable assurance of achieving its objective. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate, because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2011 based on the criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In conducting this assessment, our management excluded the Magnum Products business given its acquisition was only as recent as the fourth quarter 2011 and constituted 7% and 12% of total and net assets, respectively, as of December 31, 2011 and 5% and 1% of revenues and net income, respectively, for the year then ended. Notwithstanding Magnum, based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting as of December 31, 2011. Its report appears in the consolidated financial statements included in this Annual Report on Form 10-K on page 47.

Changes in Internal Control Over Financial Reporting

On October 3, 2011, a subsidiary of the Company acquired substantially all of the assets and certain liabilities of Magnum. As a result of the acquisition, we are in the process of reviewing the internal control structure of Magnum and, if necessary, will make appropriate changes as we incorporate our controls and procedures into the acquired business. Except for the acquisition, there have been no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 not already provided herein under “Item 1 – Business – Executive Officers”, will be included in our 2012 Proxy Statement, and is incorporated by reference herein.

Item 11. Executive Compensation

The information required by this item will be included in our 2012 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be included in our 2012 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be included in our 2012 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be included in our 2012 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Included in Part II of this report:

	Page
Report of Independent Registered Public Accounting Firm	<u>47</u>
Consolidated balance sheets as of December 31, 2011 and 2010	<u>49</u>
Consolidated statements of operations for years ended December 31, 2011, 2010 and 2009	<u>50</u>
Consolidated statements of redeemable stock and stockholders' equity (deficit) for years ended December 31, 2011, 2010 and 2009	<u>51</u>
Consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009	<u>52</u>
Notes to consolidated financial statements	<u>53</u>

(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

(a)(3) Exhibits

See the Exhibits Index following the signature pages for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

EXHIBIT INDEX

Exhibits Number	Description
2.1	Agreement and Plan of Merger by and among Generac Power Systems, Inc., the representative named therein, GPS CCMP Acquisition Corp., and GPS CCMP Merger Corp., dated as of September 13, 2006 (incorporated by reference to Exhibit 2.1 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
2.2	Amendment to Agreement and Plan of Merger by and among Generac Power Systems, Inc., the representative named therein, GPS CCMP Acquisition Corp., and GPS CCMP Merger Corp (incorporated by reference to Exhibit 2.1 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
2.3*	Asset Purchase Agreement, dated as of October 3, 2011, by and among Magnum Power Products, LLC, Magnum Products, LLC and the other Sellers named therein, the Equityholders named therein and Thomas Joseph, as Sellers' Representative.
3.1	Third Amended and Restated Certificate of Incorporation of Generac Holdings Inc. (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010).
3.2	Amended and Restated Bylaws of Generac Holdings Inc. (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
4.2	Shareholders Agreement, dated as of November 10, 2006, by and among Generac Holdings Inc., certain stockholders of Generac Holdings Inc., including CCMP Capital Investors II, L.P., various of its affiliated funds, various funds affiliated with Unitas Capital Ltd. and the Management Shareholders (as defined in Shareholders Agreement) (incorporated by reference to Exhibit 4.2 of the Registration Statement on Form S-1 filed with the SEC on October 20, 2009).
10.1	Credit Agreement, dated as of February 9, 2012, among Generac Power Systems, Inc., Generac Acquisition Corp., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Goldman Sachs Credit Partners L.P. and Merrill Lynch, Pierce, Fenner & Smith LLP, as syndication agents, and RBS Citizens, N.A., PNC Bank, National Association, Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation and Bank of Montreal, as Documentation Agents (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on February 10, 2012).
10.2	Guarantee and Collateral Agreement, dated as of February 9, 2012, among Generac Acquisition Corp., Generac Power Systems, Inc., certain subsidiaries of Generac Power Systems, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on February 10, 2012).
10.3	Advisory Services and Monitoring Agreement, dated November 10, 2006 (incorporated by reference to Exhibit 10.7 of the Registration Statement on Form S-1 filed with the SEC on November 24, 2009).
10.4+	2009 Executive Management Incentive Compensation Program (incorporated by reference to Exhibit 10.46 of the Registration Statement on Form S-1 filed with the SEC on December 17, 2009).
10.5+	Generac Holdings Inc. 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.6+	Generac Holdings Inc. Annual Performance Bonus Plan (incorporated by reference to Exhibit 10.63 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.7+	Amended and Restated Employment Agreement, dated January 14, 2010, between Generac and Aaron Jagdfeld (incorporated by reference to Exhibit 10.65 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).

EXHIBIT INDEX (continued)

Exhibits Number	Description
10.8+	Employment Agreement, dated as of November 10, 2006, between Generac and Dawn Tabat (incorporated by reference to Exhibit 10.3 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.9+	Amendment to Employment Agreement, dated January 14, 2010, between Generac and Dawn Tabat (incorporated by reference to Exhibit 10.66 of the Registration Statement on Form S-1 filed with the SEC on October 20, 2009).
10.10+	Employment Letter with Terrence Dolan (incorporated by reference to Exhibit 10.62 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.11+	Form of Change in Control Severance Agreement (incorporated by reference to Exhibit 10.64 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.12	Form of Confidentiality, Non-Competition and Intellectual Property Agreement (incorporated by reference to Exhibit 10.40 of the Registration Statement on Form S-1 filed with the SEC on November 24, 2009).
10.13+	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.44 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.14+	Form of Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.45 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.15	Form of Generac Holdings Inc. Director Indemnification Agreement for Stephen Murray and Timothy Walsh (incorporated by reference to Exhibit 10.50 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
10.16	Form of Generac Holdings Inc. Director Indemnification Agreement for Barry Goldstein, John D. Bowlin and Edward A. LeBlanc (incorporated by reference to Exhibit 10.51 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
10.17	Form of Generac Holdings Inc. Officer Indemnification Agreement (incorporated by reference to Exhibit 10.52 of the Registration Statement on Form S-1 filed with the SEC on January 11, 2010).
10.18	Form of Generac Power Systems, Inc. Director Indemnification Agreement for Stephen Murray and Timothy Walsh (incorporated by reference to Exhibit 10.53 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.19	Form of Generac Power Systems, Inc. Indemnification Agreement for Barry Goldstein, John D. Bowlin, Edward A. LeBlanc, Aaron Jagdfeld, David Ramon, York A. Ragen, Dawn Tabat, Allen Gillette, Roger Schaus, Jr., Roger Pascavis and Russell S. Minick (incorporated by reference to Exhibit 10.54 of the Registration Statement on Form S-1 filed with the SEC on January 25, 2010).
10.20+	Amendment to Employment Agreement with Dawn Tabat (incorporated by reference to Exhibit 10.1 of the quarterly report filed with the SEC on November 14, 2011).
10.21+	Offer letter to Russ Minick (incorporated by reference to Exhibit 10.2 of the quarterly report filed with the SEC on November 14, 2011).
21.1*	List of Subsidiaries of Generac Holdings Inc.
23.1*	Consent of Ernst & Young, Independent Registered Public Accounting Firm, relating to Generac Holdings Inc.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14 Securities Exchange Act Rules 13a-14(a) and 15d-14(a), pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial information from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC on March 9, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets at December 31, 2011 and December 31, 2010; (ii) Consolidated Statements of Operations for the Fiscal Years Ended December 31, 2011, December 31, 2010 and December 31, 2009; (iii) Consolidated Statements of Redeemable Stock and Stockholders' Equity (Deficit) for the Fiscal Years Ended December 31, 2011, December 31, 2010 and December 31, 2009; (iv) Consolidated Statements of Cash Flows for the Fiscal Years Ended December 31, 2011, December 31, 2010 and December 31, 2009; (v) Notes to Consolidated Financial Statements.
*	Filed herewith.
**	Furnished herewith.
+	Indicates management contract or compensatory plan or arrangement.

ASSET PURCHASE AGREEMENT

Dated as of October 3, 2011

Among:

Magnum Power Products, LLC, as Buyer;

Magnum Products, LLC, as Seller;

the other Sellers named herein;

the Equityholders named herein;

and

Thomas Joseph, as Sellers' Representative

Table of Contents

	<u>Page</u>
ARTICLE I	
DEFINITIONS AND INTERPRETATIONS	
1.1.Definitions	1
1.2.Interpretation	11
ARTICLE II	
PURCHASE AND SALE	
2.1.Purchased Assets	12
2.2.Excluded Assets	13
2.3.Assumed Liabilities	13
2.4.Excluded Liabilities	14
ARTICLE III	
PURCHASE PRICE	
3.1.Purchase Price	16
3.2.Determination of Estimated Closing Date Cash Payment	16
3.3.Determination of Closing Date Cash Payment	16
3.4.Adjustment of Estimated Closing Date Cash Payment	18
3.5.Additional Payments	18
3.6.Allocation of Purchase Price	21
ARTICLE IV	
CLOSING	
4.1.Closing Date	21
4.2.Payment on the Closing Date	22
4.3.Buyer's Additional Deliveries	22
4.4.Sellers' Deliveries	22
ARTICLE V	
REPRESENTATIONS AND WARRANTIES OF SELLERS AND THE EQUITYHOLDERS	
5.1.Organization of Sellers and Equityholders	25
5.2.Subsidiaries and Investments	25
5.3.Authority of Sellers and Equityholders	26
5.4.Financial Statements of Magnum; Internal Controls	27
5.5.Operations Since Balance Sheet Date	28
5.6.No Undisclosed Liabilities	30

5.7.Taxes	30
5.8.Availability of Assets	31
5.9.Governmental Permits	31
5.10.Real Property	32
5.11.Personal Property	33
5.12.Intellectual Property; Software	33
5.13.Accounts Receivable; Inventories	35
5.14.Title to Property	36
5.15.Employees and Related Agreements; ERISA	36
5.16.Employee Relations	39
5.17.Contracts	39
5.18.Status of Contracts	40
5.19.No Violation or Litigation	41
5.20.Environmental Matters	41
5.21.Insurance	43
5.22.Customers and Suppliers	43
5.23.Budgets	43
5.24.Warranties; Product Defects	43
5.25.No Finder	44
5.26.Disclosure	44
5.27.No Other Representations and Warranties	44

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF BUYER

6.1.Organization of Buyer	45
6.2.Authority of Buyer	45
6.3.No Finder	45

ARTICLE VII

ACTION PRIOR TO THE CLOSING DATE

7.1.Investigation by Buyer	46
7.2.Preserve Accuracy of Representations and Warranties; Notification of Certain Matters	46
7.3.Consents of Third Parties; Governmental Approvals	47
7.4.Operations Prior to the Closing Date	48
7.5.Reasonable Efforts	50
7.6.Commitment for Title Insurance; Surveys	50
7.7.Acquisition Proposals	50

ARTICLE VIII

ADDITIONAL AGREEMENTS

8.1.Covenant Not to Compete or Solicit Business	50
8.2.Taxes	52
8.3.Employees Matters	53

8.4.Change in Corporate Name	54
8.5.Warranty Claims; Product Liability Claims	54
8.6.Insurance	55
8.7.Release	56

ARTICLE IX

CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER

9.1.No Misrepresentation or Breach of Covenants and Warranties	56
9.2.No Changes or Destruction of Property	57
9.3.No Restraint or Litigation	57
9.4.Necessary Governmental Approvals	57
9.5.Necessary Consents	57
9.6.Customer Due Diligence	57
9.7.Title Insurance	57
9.8.Sellers' Deliveries	57
9.9.SNDAs and Estoppels	57

ARTICLE X

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS

10.1.No Misrepresentation or Breach of Covenants and Warranties	58
10.2.No Restraint or Litigation	58
10.3.Necessary Governmental Approvals	58
10.4.Buyer Deliveries	58

ARTICLE XI

INDEMNIFICATION

11.1.Indemnification by Sellers and Equityholders	58
11.2.Indemnification by Buyer	61
11.3.Notice of Claims	62
11.4.Third Person Claims	62
11.5.Setoff	64
11.6.Sole Remedy.	64
11.7.No Duplication of Warranties.	64
11.8.Mitigation	64
11.9.Business Insurance Policies	65
11.10.Adjustment to Purchase Price	65
11.11.Lay-Mor Litigation.	65

ARTICLE XII

TERMINATION

12.1.Termination	66
------------------	----

12.2.Notice of Termination	66
12.3.Effect of Termination	66

ARTICLE XIII

GENERAL PROVISIONS

13.1.Survival of Obligations	66
13.2.Confidential Nature of Information	67
13.3.No Public Announcement	67
13.4.Notices	67
13.5.Successors and Assigns	68
13.6.Access to Records after Closing	69
13.7.Sellers' Representative.	69
13.8.Entire Agreement; Amendments	69
13.9.Partial Invalidity	70
13.10.Waivers	70
13.11.Expenses	70
13.12.Execution in Counterparts	70
13.13.Enforcement of Agreement	70
13.14.Further Assurances	70
13.15.Governing Law	71
13.16.Time is of the Essence	71
13.17.Submission to Jurisdiction; Waiver of Jury Trial	71

[End TOC.]

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT is dated as of October 3, 2011, and by and among Magnum Power Products, LLC, a Wisconsin limited liability company ("Buyer"), Magnum Products, LLC, a Wisconsin limited liability company ("Magnum"), CH&E Pumps Acquisition, LLC, a Wisconsin limited liability company ("CH&E"), Magnum Products International, Inc., a Delaware corporation ("MP International"), Magnum Products Canada, Inc., a Wisconsin corporation ("MP Canada"), Magnum Products Services, LLC, a Wisconsin limited liability company ("MP Services"), Joseph Properties, LLC, a Wisconsin limited liability company ("Joseph Properties"); and, together with Magnum, CH&E, MP International, MP Canada, and MP Services, collectively, the "Sellers"), Thomas Joseph, Michael Joseph and the other direct and indirect equityholders of the Sellers listed on the signature pages hereof (collectively, the "Equityholders") and Thomas Joseph, as Sellers' Representative.

WHEREAS, the Sellers are engaged in the Business;

WHEREAS, Sellers desire to sell to Buyer, and Buyer desires to purchase from Sellers, on a going concern basis, substantially all of the assets, properties and business of Sellers with respect to the Business, all on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the parties to this Agreement agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

1.1. Definitions

. In this Agreement, the following terms have the meanings specified or referred to in this Section 1.1 and shall be equally applicable to both the singular and plural forms.

"Accounting Firm" has the meaning specified in Section 3.3(d).

"Additional Payment" has the meaning specified in Section 3.5.

"Additional Payment Report" has the meaning specified in Section 3.5(c).

"Additional Period" has the meaning specified in Section 3.5.

"Affiliate" means, with respect to any Person, any other Person which, at the time of determination, directly or indirectly through one or more intermediaries Controls, is Controlled by or is under Common Control with such Person.

"Agreed Accounting Principles" means generally accepted accounting principles consistently applied, provided that, with respect to any matter as to which there is more than one generally accepted accounting principle, Agreed Accounting Principles means the generally accepted accounting principles applied in the preparation of the Balance Sheet.

“**Agreed Adjustments**” has the meaning specified in [Section 3.3\(c\)](#).

“**Agreed Rate**” means the prime rate published by the *Wall Street Journal, National Edition*, as that rate may vary from time to time, or if that rate is no longer published, a comparable rate.

“**Allocation Schedule**” has the meaning specified in [Section 3.6](#).

“**Antitrust Division**” means the Antitrust Division of the United States Department of Justice.

“**Assumed Liabilities**” has the meaning specified in [Section 2.3](#).

“**Balance Sheet**” has the meaning specified in [Section 5.4\(a\)](#).

“**Balance Sheet Date**” has the meaning specified in [Section 5.4\(a\)](#).

“**Bring-Down Certificates**” has the meaning specified in [Section 4.4\(n\)](#).

“**Business**” means the business of the Sellers, including the development, manufacture, distribution, sale and/or servicing of light towers, generators, water trailers, pumps, sweepers, ITEG Products, combination units and/or related equipment and accessories.

“**Business Insurance Policies**” has the meaning specified in [Section 8.6\(a\)](#).

“**Buyer**” has the meaning specified in the first paragraph of this Agreement.

“**Buyer Ancillary Agreements**” means all agreements, instruments and documents being or to be executed and delivered by Buyer under this Agreement.

“**Buyer Group Member**” means (i) Buyer and its Affiliates, (ii) the directors, officers and employees of each of Buyer and its Affiliates and (iii) the respective successors and assigns of each of the foregoing.

“**CERCLA**” means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 *et seq.*

“**Claim Notice**” has the meaning specified in [Section 11.3\(a\)](#).

“**Closing**” means the closing of the transfer of the Purchased Assets from Sellers to Buyer.

“**Closing Date**” has the meaning specified in [Section 4.1](#).

“**Closing Date Retention Plan**” means a Retention Award Agreement, effective as of the Closing Date, between Buyer and each of the persons named on [Schedule 1.1\(A\)](#), in the forms set forth in [Exhibit G](#).

“**Closing Date Retention Plan Amount**” means \$625,000.

“**Closing Date Cash Payment**” means \$80,000,000 (i) minus the Negative Working Capital Adjustment Amount, or plus the Positive Working Capital Adjustment Amount and (ii) minus the Closing Date Retention Plan Amount.

“**Code**” means the Internal Revenue Code of 1986.

“**Confidentiality Agreements**” means the Mutual Confidentiality and Non-Disclosure Agreements dated as of July 9, 2010 and June 22, 2011, each between Buyer and Magnum.

“**Contract**” means any legally binding agreement, contract, license, sublicense, subcontract, settlement agreement, lease, understanding, arrangement, commitment, undertaking, instrument, note, indemnity, purchase order, warranty, insurance policy or benefit plan, whether written or oral.

“**Control**” means, as to any Person, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. The terms “Controlled by,” “under Common Control with” and “Controlling” shall have correlative meanings.

“**Copyrights**” means United States and non-U.S. copyrights and mask works (as defined in 17 U.S.C. §901), whether registered or unregistered, and pending applications to register the same.

“**Court Order**” means any judgment, order, award or decree of any United States federal, state or local, or any supra-national or non-U.S., court or tribunal and any award in any arbitration proceeding.

“**Deductible**” has the meaning specified in Section 11.1(a)(A).

“**Encumbrance**” means any lien (statutory or other), claim, charge, security interest, mortgage, deed of trust, pledge, hypothecation, assignment, conditional sale or other title retention agreement, preference, priority or other security agreement or preferential arrangement of any kind, and any easement, encroachment, covenant, restriction, right of way, defect in title or other encumbrance of any kind.

“**Environmental Encumbrance**” means an Encumbrance in favor of any Governmental Body for (i) any liability under any Environmental Law, or (ii) damages arising from, or costs incurred by such Governmental Body in response to, a Release or threatened Release of Hazardous Materials into the environment.

“**Environmental Law**” means all Requirements of Laws addressing the environment, health or safety, including CERCLA, OSHA and RCRA and any state equivalent thereof.

“**Equityholders**” has the meaning specified in the first paragraph of this Agreement.

“**ERISA**” means the Employee Retirement Income Security Act of 1974.

“**Escrow Amount**” means \$6,500,000; being the sum of the Indemnity Escrow Amount (\$6,000,000) and the Working Capital Escrow Amount (\$500,000).

“**Escrow Agreement**” means the Escrow Agreement in the form of Exhibit C.

“**Escrow Agent**” means the Escrow Agent under the Escrow Agreement.

“**Estimated Closing Date Cash Payment**” means the Closing Date Cash Payment, as defined herein, but determined on an estimated basis by Sellers in good faith and as reflected in the certificate referred to in Section 3.2.

“**Excluded Assets**” has the meaning specified in Section 2.2.

“**Excluded Liabilities**” has the meaning specified in Section 2.4.

“**Expenses**” means any and all expenses incurred in connection with investigating, defending or asserting any claim, action, suit or proceeding incident to any matter indemnified against hereunder (including court filing fees, court costs, arbitration fees or costs, witness fees, and reasonable fees and disbursements of legal counsel, investigators, expert witnesses, consultants, accountants and other professionals).

“**FTC**” means the United States Federal Trade Commission.

“**Governmental Body**” means any United States federal, state or local, or any supra-national or non-U.S., government, political subdivision, governmental, regulatory or administrative authority, instrumentality, agency body or commission, court, tribunal or judicial or arbitral body.

“**Governmental Permits**” has the meaning specified in Section 5.9(a).

“**Government Contract**” has the meaning specified in Section 5.17(ix).

“**Hazardous Material**” means any waste, pollutant, hazardous or toxic substance or waste, petroleum, petroleum-based substance or waste, or any constituent of any such substance or waste defined in, regulated under or for which standards of care are imposed by any Environmental Law.

“**HSR Act**” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

“**Improvements**” has the meaning specified in Section 5.10(a).

“**Indebtedness**” of any Person means, without duplication, (i) indebtedness of such Person for money borrowed (including the aggregate principal amount thereof, the aggregate amount of accrued but unpaid interest thereon and any premiums thereon); (ii) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (iii) all obligations in respect of interest rate or currency obligation swaps, caps, floors, hedges or similar arrangements of such Person; (iv) all obligations of such Person issued or assumed (excludes trade accounts payable) as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement; (v) all obligations of such Person under leases required to be capitalized in accordance with U.S. generally accepted accounting principles; (vi) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction; (vii) all obligations of the type referred to in clauses (i) through (vi) of any Persons for the payment of which such Person is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise, including guarantees of such obligations; and (viii) all obligations of the type referred to in clauses (i) through (vii) of other Persons secured by any Encumbrance on any property or asset of such Person (whether or not such obligation is assumed by such Person).

“**Indemnified Party**” has the meaning specified in Section 11.3(a).

“**Indemnitor**” has the meaning specified in Section 11.3(a).

“**Indemnity Escrow Amount**” means \$6,000,000.

“**Instrument of Assignment**” means the Instrument of Assignment in the form of Exhibit A.

“**Instrument of Assumption**” means the Instrument of Assumption in the form of Exhibit B.

“**Intellectual Property**” means Copyrights, Patent Rights, Trademarks and Trade Secrets.

“**IRS**” means the Internal Revenue Service.

“**ITEG Dispute Period**” has the meaning specified in Section 3.5(c).

“**ITEG Products**” has the meaning specified in Section 3.5(a).

“**Joseph Consulting Agreement**” means a Consulting Agreement by and between Michael Joseph and Buyer in the form of Exhibit E.

“**Joseph Lease**” means that certain Lease, dated as of October 12, 1997, by and between Joseph Properties, LLC and Magnum Properties, LLC, as amended.

“**Joseph Properties**” has the meaning specified in the first paragraph of this Agreement.

“**Land**” has the meaning specified in Section 5.10(a).

“**Leased Real Property**” has the meaning specified in Section 5.10(b).

“**Letter of Intent**” means the letter agreement dated June 22, 2011 between Buyer and Magnum, as amended by the letter agreement dated August 26, 2011.

“**Losses**” means any and all losses, costs, obligations, liabilities, settlement payments, awards, judgments, fines, penalties, damages, deficiencies or other charges (but specifically excluding punitive, exemplary, remote or speculative damages or consequential damages that are not reasonably foreseeable, in each case, unless payable to a third party).

“**Magnum**” has the meaning specified in the first paragraph of this Agreement.

“**Management Bonuses**” means a bonus, payable in cash, to the persons and in the amounts set forth in Schedule 1.1(B).

“**Material Seller Agreements**” has the meaning specified in Section 9.5.

“**MP Canada**” has the meaning specified in the first paragraph of this Agreement.

“**MP International**” has the meaning specified in the first paragraph of this Agreement.

“**MP Services**” has the meaning specified in the first paragraph of this Agreement.

“**Negative Working Capital Adjustment Amount**” has the meaning specified in Section 3.1.

“**OSHA**” means the Occupational Safety and Health Act, 29 U.S.C. §§ 651 *et seq.*

“**Owned Real Property**” has the meaning specified in Section 5.10(a).

“**Patent Rights**” means United States and non-U.S. patents, provisional patent applications, patent applications, continuations, continuations-in-part, divisions, reissues, patent disclosures, industrial designs, inventions (whether or not patentable or reduced to practice) and improvements thereto.

“**Permitted Encumbrances**” means (i) liens for Taxes and other governmental charges and assessments which are not yet due and payable; (ii) liens of landlords and liens of carriers, warehousemen, mechanics and materialmen and other similar liens imposed by law arising in the ordinary course of Business for sums not yet due and payable; and (iii) other liens or imperfections on property which do not adversely affect title to, detract from the value of, or impair the existing use of, the property affected by such lien or imperfection.

“**Person**” means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization or Governmental Body.

“Positive Working Capital Adjustment Amount” has the meaning specified in Section 3.1.

“Post-Closing Insurance Claim” has the meaning specified in Section 8.6(a).

“Preliminary Additional Payment” has the meaning specified in Section 3.5(b).

“Preliminary Accounting Report” has the meaning specified in Section 3.3(a)(iii).

“Preliminary Additional Payment Report” has the meaning specified in Section 3.5(b).

“Preliminary Closing Date Cash Payment” has the meaning specified in Section 3.3(a)(ii).

“Preliminary Valuation Date Working Capital Statement” has the meaning specified in Section 3.3(a)(i).

“Product Liability Claims” means all claims and suits for, and other Losses and Expenses in respect of, personal injury, property damages, or diminution in value of property arising out of any products of the Business.

“Products” means all products manufactured, distributed or sold by Magnum (or any other Seller) with respect to the Business prior to the Closing Date; provided, that “Products” shall not include any such products that constituted “work-in-process inventory” as of the Closing Date.

“Purchase Price” has the meaning specified in Section 3.1.

“Purchased Assets” has the meaning specified in Section 2.1.

“RCRA” means the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq.

“Release” means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of Hazardous Material into the indoor or outdoor environment or onto, into, or out of any Seller Property, including the movement of Hazardous Materials through or in the air, soil, surface water, groundwater or Seller Property.

“Remedial Action” means actions required pursuant to applicable Environmental Laws to (i) clean up, remove, treat or in any other way address Hazardous Materials in the indoor or outdoor environment; (ii) prevent the Release or threatened Release, or minimize the further Release, of Hazardous Materials or (iii) investigate and determine if a remedial response is needed and to design such a response and post-remedial investigation, monitoring, operation and maintenance and care.

“**Requirements of Laws**” means any applicable United States federal, state and local, and any non-U.S., laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Body (including those pertaining to electrical, building, zoning, environmental and occupational safety and health requirements) or common law.

“**Sellers**” has the meaning specified in the first paragraph of this Agreement.

“**Seller Agreements**” has the meaning specified in [Section 5.18](#).

“**Seller Ancillary Agreements**” means all agreements, instruments and documents being or to be executed and delivered by Sellers under this Agreement.

“**Seller Group Member**” means (i) Sellers and their respective Affiliates, (ii) the managers, directors, officers and employees of each of the Sellers and their respective Affiliates and (iii) the respective successors and assigns of each of the foregoing.

“**Seller Property**” means any real or personal property, plant, building, facility, structure, underground storage tank, equipment or unit, or other asset owned, leased or operated by any Seller and used in the Business.

“**Sellers’ Compensation Commitments**” has the meaning specified in [Section 5.15\(b\)](#).

“**Sellers’ ERISA Plans**” has the meaning specified in [Section 5.15\(d\)](#).

“**Sellers’ Knowledge**” (or words to similar effect) means the actual knowledge, after reasonable inquiry, of any of the individuals listed on [Schedule 1.1\(C\)](#).

“**Sellers’ Non-ERISA Plans**” has the meaning specified in [Section 5.15\(a\)](#).

“**Sellers’ Representative**” has the meaning specified in [Section 13.7](#).

“**Seller’s Representative Agreement**” has the meaning specified in [Section 13.7](#).

“**Sellers’ Transaction Expenses**” has the meaning specified in [Section 2.4\(f\)](#).

“**Seller Warranty Claims**” has the meaning specified in [Section 8.5\(a\)](#).

“**Seller Warranties**” has the meaning specified in [Section 8.5\(a\)](#).

“**Software**” means computer software programs and software systems, including databases, compilations, tool sets, compilers, higher level or “proprietary” languages and related documentation and materials, whether in source code, object code or human readable form.

“**Straddle Period**” means any taxable year or period beginning on or before and ending after the Closing Date.

“**Subcontract**” shall mean that certain Subcontract Agreement between Buyer and Sellers, substantially in the form of attached Exhibit H.

“**Subsidiary**” has the meaning specified in Section 5.2(a).

“**Survey**”, with respect to each parcel of Owned Real Property, means a survey of such property acceptable to Buyer and the title company issuing the Title Policy with respect to such property, dated no earlier than the date of this Agreement, and: (i) showing (A) lot lines and monuments; (B) exterior building lines and the location of buildings on the Owned Real Property (exclusive of building or other improvement heights); (C) recorded easements (both burdening and/or benefiting such property); (D) title exceptions of record (to the extent such items can be located by the surveyor); (E) public thoroughfare access locations; (F) utilities (including water, sewer, gas, electric and telephone lines to the point of connection with the public systems); (G) other above-ground improvements (including roads, streets, driveways and sidewalks) located on or abutting contiguous with the Owned Real Property; (H) location of navigable water courses or water bodies; (I) loading docks and parking spaces; and (J) the square footage of the land; (ii) evidencing the fact that there are no encroachments from adjoining properties onto such property or from such property onto adjoining properties; (iii) containing any appropriate flood plain designation; and (iv) being certified by a land surveyor, registered in the state in which such property is located, as having been prepared in compliance with ALTA land survey standards, which certification shall run to the benefit of Buyer, and such title company.

“**Tail Policy**” means a policy of insurance purchased by Sellers, effective at or before the Closing Date, and in form and substance reasonably acceptable to Buyer, which includes Buyer as a named insured, and which provides insurance for a period of not less than six (6) years, with respect to any product liability or claims for injury to person or property, regardless of when made or asserted, relating to any Products.

“**Tax**” (and, with correlative meaning, “**Taxes**”) means: (i) any United States federal, state or local, or non-U.S., net income, gross income, gross receipts, windfall profit, severance, property, production, sales, use, license, excise, franchise, employment, payroll, withholding, alternative or add-on minimum, ad valorem, value-added, transfer, stamp, escheat or environmental (including taxes under Code Section 59A) tax, or any other tax, custom, duty, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty, addition to tax or additional amount imposed by any Governmental Body; and (ii) any liability of a Seller for the payment of amounts with respect to payments of a type described in clause (i) as a result of being a member of an affiliated, consolidated, combined or unitary group, as a result of any obligation of a Seller under any Tax sharing arrangement or Tax indemnity agreement or as transferee, successor or otherwise.

“**Tax Return**” means any return, report or similar statement required to be filed with respect to any Taxes (including any attached schedules), including any information return, claim for refund, amended return or declaration of estimated Tax.

“**Third Person Claim**” has the meaning specified in Section 11.3(a).

“Title Policy”, means, with respect to any Owned Real Property, an ALTA owner’s title insurance policy, 2006 form, and, with respect to any Leased Real Property, an ALTA leasehold owner’s title insurance policy, 2006 form, in each case with (i) an effective date of the Closing Date; (ii) extended coverage over all of the general exceptions (including any such exceptions pertaining to rights or claims of parties in possession, survey matters, easements or claims of easements not shown by the public records, mechanic’s liens, and taxes or special assessments not shown as existing liens); (iii) a Form 3.1 zoning endorsement (including parking and loading docks); (iv) a contiguity endorsement, if applicable; (v) a public thoroughfare access endorsement; (vi) an owner’s comprehensive endorsement (which shall, among other things, insure compliance with any covenants, conditions and restrictions constituting Permitted Encumbrances); (vii) a survey accuracy endorsement; (viii) a surveyed legal description showing a legal description which is the same as the Title Policy legal description (if applicable); (ix) a tax parcel or tax number endorsement; (x) subdivision endorsement; (xi) in the case of each leasehold owner’s title insurance policy, a leasehold owner’s endorsement; and (xii) such other endorsements as Buyer shall reasonably request, all such endorsements to be in form and substance reasonably satisfactory to Buyer. The Title Policy shall be written by a nationally recognized title insurance company in amount, form and substance reasonably satisfactory to Buyer and insure that, in the case of Owned Real Property, Buyer has good and marketable title to the Owned Real Property, free and clear of all Encumbrances, except for Permitted Encumbrances, and in the case of Leased Real Property, Buyer has a valid leasehold interest in the Leased Real Property, free and clear of all Encumbrances, except for Permitted Encumbrances. Buyer’s endorsements set forth above shall be obtained at Buyer’s cost and expense.

“Trademarks” means United States, state and non-U.S. trademarks, service marks, trade names, Internet domain names, designs, logos, slogans and general intangibles of like nature, whether registered or unregistered, and pending registrations and applications to register the foregoing.

“Trade Secrets” means trade secrets and confidential ideas, know-how, concepts, methods, processes, formulae, technology, algorithms, models, reports, data, customer lists, supplier lists, mailing lists, business plans and other proprietary information, all of which derive value, monetary or otherwise, from being maintained in confidence.

“Transaction Bonuses” means a bonus, payable in cash, to the persons and in the amounts set forth in Schedule 1.1(D).

“Transferring Employees” has the meaning specified in Section 8.3(a).

“UAR Plan” means the Magnum Products, LLC Unit Appreciation Rights Plan, effective as of January 1, 2011 and related award notices to the individuals listed on Schedule 1.1(E).

“Valuation Date” means the close of business on the last business day prior to the Closing Date.

“Valuation Date Working Capital Statement” has the meaning specified in Section 3.3(d).

“Valuation Date Working Capital Amount” means the excess of the current asset accounts listed on Schedule 1.2 over the current liability accounts listed on Schedule 1.2 as of the Valuation Date.

“Warranty Costs” has the meaning specified in Section 8.5(a).

“Warranty Reserve” has the meaning set forth in Section 8.5(a).

“Warranty Service” has the meaning specified in Section 8.5(a).

“Working Capital Escrow Amount” means \$500,000.

“Years-of-Service Bonuses” means a bonus, payable in cash, to the persons and in the amounts set forth in Schedule 1.1(F).

1.2. Interpretation

.For purposes of this Agreement, (i) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation,” (ii) the word “or” is not exclusive, and (iii) the words “herein”, “hereof”, “hereby”, “hereto” and “hereunder” refer to this Agreement as a whole. Unless the context otherwise requires, references herein: (i) to Articles, Sections, Exhibits and Schedules mean the Articles and Sections of, and the Exhibits and Schedules attached to, this Agreement; (ii) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and by this Agreement; (iii) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder, and (iv) references to any Seller shall be deemed to include any corporation or other entity that has been merged into or is otherwise a predecessor to such Seller. The Schedules and Exhibits referred to herein shall be construed with and as an integral part of this Agreement to the same extent as if they were set forth verbatim herein. Titles to Articles and headings of Sections are inserted for convenience of reference only and shall not be deemed a part of or to affect the meaning or interpretation of this Agreement. Any document, list or other item shall be deemed to have been “made available” to Buyer for all purposes hereof only if such document, list or other item was posted at least one business day before the date hereof in the electronic data room established by Sellers in connection with the transactions contemplated hereby or a physical or electronic copy thereof was delivered to Buyer or its authorized representatives at least one business day before the date hereof. This Agreement, the Buyer Ancillary Agreements and the Seller Ancillary Agreements shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

ARTICLE II

PURCHASE AND SALE

2.1. Purchased Assets.

Upon the terms and subject to the conditions of this Agreement, on the Closing Date, Sellers shall sell, transfer, assign, convey and deliver to Buyer, and Buyer shall purchase from Sellers, on a going concern basis, free and clear of all Encumbrances (except for Permitted Encumbrances), all of the business and operations of Sellers and all of the assets and properties of Sellers of every kind and description, wherever located, real, personal or mixed, tangible or intangible, used in connection with the Business (other than the Excluded Assets), as the same shall exist on the Closing Date (collectively, the "Purchased Assets"), including all right, title and interest of Sellers in, to and under:

- (a) all of the assets reflected on the Balance Sheet, except those disposed of or converted into cash after the Balance Sheet Date in the ordinary course of Business;
- (b) all notes and accounts receivable generated by the Business;
- (c) all raw materials, supplies, work-in-process, finished goods and other materials included in the inventory of Sellers with respect to the Business;
- (d) the Governmental Permits listed in Schedule 5.9;
- (e) the Owned Real Property and options to acquire real property listed in Schedule 5.10(A);
- (f) the real estate leases and leasehold improvements listed or described in Schedule 5.10(B);
- (g) the machinery, equipment, vehicles, furniture and other personal property listed or referred to in Schedule 5.11(A);
- (h) the personal property leases listed in Schedule 5.11(B);
- (i) the Copyrights, Patent Rights and Trademarks (and all goodwill associated therewith) listed in Schedule 5.12(A);
- (j) the names "Magnum Products", "CH&E Pumps" and any trade names, trademarks, service marks or logos to the extent the same incorporate the name "Magnum Products" or any variation thereof;
- (k) all Trade Secrets and other proprietary or confidential information used in or relating to the Business;
- (l) the Software listed in Schedule 5.12(B);

(m) the Contracts listed in Schedule 5.12(C);

(n) the Contracts listed or described in Schedule 5.17;

(o) all of Sellers' rights, claims or causes of action against third parties relating to the assets, properties, business or operations of Sellers with respect to the Business arising out of transactions occurring prior to the Closing Date, except for such rights, claims and causes of action to the extent relating to the Excluded Assets or Excluded Liabilities;

(p) all books and records (including all data and other information stored on discs, tapes or other digital storage media) of Sellers relating to the Purchased Assets and Assumed Liabilities (but excluding all books and records relating to the organization, and existence of any Seller, including without limitation the "record books", "minute books", corporate or other entity governance records, tax and accounting records related to or arising out of the Equityholder's ownership of any Seller entity); and

(q) all Sellers' rights, claims or interest, if any, in telephone, telex and telephone facsimile numbers and other directory listings utilized by Sellers in connection with the Business.

2.2. Excluded Assets. Notwithstanding the provisions of Section 2.1, the Purchased Assets shall not include the following (collectively, the "Excluded Assets"):

(a) any cash, bank deposits and cash equivalents;

(b) all contracts of insurance, other than the Tail Policy;

(c) all corporate minute books and stock transfer books and the corporate seals of Sellers;

(d) any shares of capital stock of any Subsidiaries;

(e) all refunds of any Tax for which a Seller is liable pursuant to Section 8.2;

(f) all employee benefit plans, agreements and arrangements, including the UAR Plan;

(g) all assets set forth on attached Schedule 2.2; and

(h) all right, title and interest in and to any claim(s), Losses, Expenses or other amounts of the Business against any third party to the extent relating to or arising out of any Excluded Liability or Excluded Asset retained by any Seller or Equityholder (as set forth in clauses (a)-(g), above).

2.3. Assumed Liabilities. On the Closing Date, Buyer shall deliver to Sellers the Instrument of Assumption pursuant to which Buyer shall assume and agree to timely pay and discharge the following obligations and liabilities of Sellers in accordance with their respective terms and subject to the respective conditions thereof:

(a) all liabilities of Magnum, CH&E and MP International with respect to the Business reflected in the Valuation Date Working Capital Statement as a dollar amount;

(b) all liabilities and obligations of Sellers to be paid or performed after the Closing Date under (i) the Seller Agreements, (ii) the Contracts with respect to the Business not required by the terms of Sections 5.11, 5.12(C), and/or 5.17 to be listed in a Schedule to this Agreement, and (iii) the Contracts entered into by a Seller with respect to the Business after the date hereof consistent with the terms of this Agreement; except (A) in each case, to the extent such liabilities and obligations, but for a breach or default by a Seller, would have been paid, performed or otherwise discharged on or prior to the Closing Date or to the extent the same arise out of any such breach or default and (B) in each case, to the extent such liabilities and obligations would be required to be reflected on a Valuation Date Working Capital Statement prepared in accordance with Agreed Accounting Principles and were not reflected in the Valuation Date Working Capital Statement and not taken into account as a deduction in determining Valuation Date Working Capital Amount in connection with the determination of the Purchase Price pursuant to Section 3.3;

(c) all liabilities in respect of Taxes for which Buyer is liable pursuant to Section 8.2;

(d) all liabilities of Sellers for which Buyer is liable pursuant to Section 8.3;

(e) subject to Section 8.5, all obligations of Sellers under standard warranties of Sellers as set forth in Schedule 5.24(A) to provide parts for and perform services with respect to, or to repair or replace, any Products; and

(f) subject to Section 8.5, all obligations and liabilities related to or arising out of Buyer's manufacture, sale and/or distribution of any products whatsoever, whether goods or services, including but not limited to the ITEG Products, to any Governmental Body or to any third person making such purchase for the benefit of a Governmental Body, on behalf of Sellers pursuant to the Subcontract following Closing.

All of the foregoing liabilities and obligations to be assumed by Buyer hereunder (excluding any Excluded Liabilities) are referred to herein as the “Assumed Liabilities.”

2.4. Excluded Liabilities. Buyer shall not assume or be obligated to pay, perform or otherwise discharge any liability or obligation of Sellers, direct or indirect, known or unknown, absolute or contingent, not expressly assumed by Buyer pursuant to the Instrument of Assumption (all such liabilities and obligations not being assumed being herein called the “Excluded Liabilities”) and, notwithstanding anything to the contrary in Section 2.3, none of the following shall be Assumed Liabilities for purposes of this Agreement:

(a) all liabilities and obligations, including any claims, actions or proceedings, regardless of when made or asserted, relating to, resulting from or arising out of the operation of the Business on or prior to the Closing Date (except to the extent individually identified and reflected as a dollar amount in Valuation Date Working Capital Statement);

(b) any liabilities and obligations related to, or arising from (i) the occupancy, operation, use or control of any of the Seller Property prior to the Closing Date or (ii) the operation of the Business prior to the Closing Date, in each case incurred or imposed by any Environmental Law, including liabilities and obligations related to, or arising from, any Release of any Hazardous Materials on, at or migrating from (A) the Seller Property, including all facilities, improvements, structures and equipment thereon, surface water thereon or adjacent thereto and soil or groundwater thereunder or (B) any real property or facility owned by a third Person to which Hazardous Materials generated by the Business were sent or came to be present prior to the Closing Date;

(c) any product liability or claims for injury to person or property, regardless of when made or asserted, relating to any Products;

(d) any liabilities in respect of Taxes for which a Seller is liable pursuant to Section 8.2;

(e) any costs and expenses incurred by Seller incident to (i) its negotiation and preparation of this Agreement, including any expenses payable to legal counsel or to any financial advisor, broker, accountant or other Person who performed services for or provided advice to any Seller or any Affiliate of Seller, or who is otherwise entitled to any compensation or payment from any Seller, in connection with any of the transactions contemplated by the Agreement or (ii) its performance and compliance with the agreements and conditions contained herein;

(f) any liabilities or obligations of Sellers in respect of change-in-control, transaction bonus or similar payments payable to directors, officers or employees of Sellers in connection with the consummation of the transactions contemplated hereby (together with the costs and expenses described in Section 2.4(e), the “Sellers’ Transaction Expenses”);

(g) any costs or expenses incurred by Sellers in respect of the Tail Policy;

(h) any liabilities arising from or related to the issuance of IRS Forms W-2 for certain year end cash bonus payroll matters described in Schedule 5.16;

(i) any liabilities or obligations in respect of any Excluded Assets;

(j) any payables, expenses or other liabilities or obligations of Sellers not individually listed in the Valuation Date Working Capital Statement or in excess of the Valuation Date Working Capital Amount;

(k) except to the extent assumed pursuant to Section 2.3(e), any obligations with respect to any return claim, warranty claim or other obligations to provide parts for and service with respect to, or to repair or replace, any Products;

(l) any liabilities in respect of lawsuits, claims, suits, proceedings or investigations set forth in Schedule 5.19 or relating to the period prior to the Closing (including any of the foregoing relating to the failure or the alleged failure by Sellers to comply with applicable Requirements of Laws or perform its obligations or otherwise comply with the terms of any Seller Agreement);

(m) any liability under or with respect to all employee benefit plans, agreements and arrangements of Sellers, including the UAR Plan, or arising in connection with the employment and pay practices, of Seller or any of its Affiliates;

(n) any liabilities or obligations relating to, in respect of, or that may become owed to, employees of the Business, including accrued compensation and worker's compensation claims, relating to the period prior to the Closing;

(o) any payables and other liabilities or obligations of a Seller with respect to the Business to another Seller or any Affiliate of a Seller; and

(p) any and all Indebtedness of a Seller or any Affiliate of a Seller.

ARTICLE III

PURCHASE PRICE

3.1. Purchase Price. The purchase price for the Purchased Assets (the "Purchase Price") shall be determined in accordance with the provisions of this Article III, and shall be equal to: (i) \$80,000,000; (ii) (A) minus the amount by which the Valuation Date Working Capital is less than \$21,908,441 (the "Negative Working Capital Adjustment Amount"), or (B) plus the amount by which the Valuation Date Working Capital is more than \$21,908,441 (the "Positive Working Capital Adjustment Amount"); plus (iii) any Additional Payments paid by Buyer pursuant to Section 3.5; minus (iv) the Closing Date Retention Plan Amount.

3.2. Determination of Estimated Closing Date Cash Payment. At least two business days prior to the Closing Date, Sellers shall deliver to Buyer a certificate executed on behalf of each Seller by a duly authorized officer of each Seller, dated the date of its delivery, stating that there has been conducted under the supervision of such officer a review of all relevant information and data then available and setting forth Sellers' best estimate of the Estimated Closing Date Cash Payment, including an estimate of the various accounts which such officers anticipate based upon the most recent available financial statements will be reflected on the Valuation Date Working Capital Statement prepared in accordance with the Agreed Accounting Principles. Such Estimated Closing Date Cash Payment shall be subject to approval by Buyer, which shall not be unreasonably withheld.

3.3. Determination of Closing Date Cash Payment.

(a) As promptly as practicable following the Closing Date (but not later than 60 days after the Closing Date), Sellers (with the reasonable cooperation of the Buyer's employees) shall:

(i) prepare, in accordance with the Agreed Accounting Principles, a statement setting forth Sellers' determination of the Valuation Date Working Capital Amount (the "Preliminary Valuation Date Working Capital Statement");

(ii) determine the Closing Date Cash Payment in accordance with the provisions of this Agreement (such Closing Date Cash Payment as determined by Sellers being referred to as the “Preliminary Closing Date Cash Payment”); and

(iii) deliver to the Buyer the Preliminary Valuation Date Working Capital Statement and a certificate setting forth the Preliminary Closing Date Cash Payment (the “Preliminary Accounting Report”).

The inventory valuation set forth in the Preliminary Valuation Date Working Capital Statement shall be based on a physical inventory to be taken by Sellers on a mutually agreed upon date certain after the date hereof, as agreed to by Buyer and Sellers, and at which representatives of Buyer and Sellers are to be present, as adjusted by Sellers’ inventory records for the period between the Valuation Date and the taking of such physical inventory. Prior to commencing the foregoing inventory, Sellers shall provide to Buyer Sellers’ inventory procedures, including without limitation, sampling procedures, if any, permitted to be used by Sellers with respect to some or applicable portions of the inventory which, subject to the consent of the Buyer, not to be unreasonably withheld, shall be used in the foregoing inventory.

(b) Promptly following receipt of the Preliminary Accounting Report, the Buyer shall review the same and, within 60 days after the date of such receipt, may deliver to Sellers’ Representative a certificate (signed by the Buyer) setting forth its objections, if any, to the Preliminary Valuation Date Working Capital Statement and the Preliminary Closing Date Cash Payment as set forth in the Preliminary Accounting Report, together with a summary in reasonable detail of the reasons therefor and calculations, if available, which in its view are necessary to eliminate such objections. If the Buyer does not timely object within such 60-day period, the Preliminary Valuation Date Working Capital Statement and the Preliminary Closing Date Cash Payment set forth in the Preliminary Accounting Report shall be final and binding as the “Valuation Date Working Capital Statement” and the Closing Date Cash Payment, respectively, for purposes of this Agreement (but shall not limit the representations and warranties of the parties set forth elsewhere in this Agreement).

(c) If the Buyer objects to the Sellers’ Representative’s Preliminary Valuation Date Working Capital Statement and the Preliminary Closing Date Cash Payment within such 60-day period, Sellers’ Representative and Buyer shall use their reasonable efforts to resolve by written agreement (the “Agreed Adjustments”) any differences as to the Preliminary Valuation Date Working Capital Statement and the Preliminary Closing Date Cash Payment and, if the Buyer and Sellers’ Representative so resolve any such differences, the Preliminary Valuation Date Working Capital Statement and the Preliminary Closing Date Cash Payment set forth in the Preliminary Accounting Report, as adjusted by the Agreed Adjustments shall be final and binding as the Valuation Date Working Capital Statement and the Closing Date Cash Payment, respectively, for purposes of this Agreement (but shall not limit the representations, warranties of the parties set forth elsewhere in this Agreement).

(d) If a Buyer objection is not resolved by Agreed Adjustments within the 60-day period next following such 60-day period, then Sellers' Representative and the Buyer shall submit matters then unresolved to BDO USA, LLP (or to such other accounting firm acceptable to both the Buyer and Sellers' Representative, which firm shall have no prior or present material business relationship with either Buyer or any of the Sellers) and such firm (the "Accounting Firm") shall be directed by Sellers' Representative and the Buyer to resolve the unresolved objections (based solely on the presentations by Sellers' Representative and by the Buyer as to whether any disputed matter had been determined in a manner consistent with the Agreed Accounting Principles) as promptly as reasonably practicable and to deliver written notice to each of Sellers' Representative and the Buyer setting forth such Accounting Firm's resolution of the disputed matters. The Preliminary Valuation Date Working Capital Statement and the Preliminary Closing Date Cash Payment, after giving effect to any Agreed Adjustments and to the resolution of disputed matters by the Accounting Firm, shall be final and binding as the "Valuation Date Working Capital Statement" and the Closing Date Cash Payment, respectively, for purposes of this Agreement but shall not limit the representations, warranties, covenants and agreements of the parties set forth elsewhere in this Agreement.

(e) The parties hereto shall make available to Buyer, the Sellers' Representative and, if applicable, the Accounting Firm, such books, records and other information (including work papers) as any of the foregoing may reasonably request to prepare or review the Preliminary Accounting Report or any matters submitted to the Accounting Firm. The fees and expenses of the Accounting Firm shall be split equally between Buyer and Sellers.

3.4. Adjustment of Estimated Closing Date Cash Payment. Promptly (but not later than five business days) after the determination of the Closing Date Cash Payment pursuant to Section 3.3 that is final and binding as set forth therein:

(i) if the Closing Date Cash Payment exceeds the Estimated Closing Date Cash Payment, Buyer shall (A) pay to the Sellers' Representative, for the benefit of Sellers, by wire transfer of immediately available funds to such bank account of the Sellers' Representative as the Sellers' Representative shall designate in writing to Buyer, an amount equal to the excess of the Closing Date Cash Payment over the Estimated Closing Date Cash Payment, plus interest on such excess from the Closing Date to the date of payment thereof at the Agreed Rate, and (B) pursuant to the terms of the Escrow Agreement, cause to be released from the Escrow Account for the benefit of Sellers, the Working Capital Escrow Amount; or

(ii) if the Estimated Closing Date Cash Payment exceeds the Closing Date Cash Payment, Sellers shall pay to Buyer, by wire transfer of immediately available funds to such bank account of Buyer as Buyer shall designate in writing to the Sellers' Representative, an amount equal to the excess of the Estimated Closing Date Cash Payment over the Closing Date Cash Payment, plus interest on such excess from the Closing Date to the date of payment thereof at the Agreed Rate; provided, however, that Sellers first shall use the Working Capital Escrow Amount held in the Escrow Account, or the necessary portion thereof, to pay such excess, with the balance thereof, if any, promptly remitted to Sellers pursuant to the Escrow Agreement.

3.5. Additional Payments. The Purchase Price shall include additional payments, if any, to be made by Buyer to Sellers (each such payment an "Additional Payment") based on the sale by the Buyer of certain products of the Business during each calendar quarter (or any portion thereof) (each such period, an "Additional Period") that falls within the five years and six months commencing on the Closing Date, to be determined as follows:

(a) The amount of any Additional Payment in respect of an Additional Period shall be equal to an amount equal to 10% of the gross amounts invoiced by the Buyer, net of volume and other rebates and discounts, any amounts in respect of insurance, freight, taxes and other similar expenses, and returns and any warranty claims, each relating to sales of the products listed on Schedule 3.5 (“ITEG Products”) to the customers listed on Schedule 3.5 during such Additional Period. Buyer shall invoice all ITEG Products customers worldwide for all ITEG Products in the ordinary course of business. Sales of ITEG Products to customers subject to this Section 3.5 shall mean and include, any third party which assumes, undertakes, consolidates, replaces or otherwise performs the purchasing and procurement functions of any customer set forth therein for the benefit of such customer.

(b) As promptly as practicable following the end of each Additional Period (but not later than 30 days after the end of each Additional Period), Buyer shall determine the Additional Payment in respect of such Additional Period (such Additional Payment as determined by Buyer being referred to as the “Preliminary Additional Payment”) and, subject to a reasonable confidentiality agreement between Buyer and Sellers, deliver to the Sellers’ Representative a certificate setting forth, in reasonable detail, (i) all ITEG Product sales by customer, (ii) all ITEG Product sales by customers listed on Schedule 3.5, (iii) rebates, discounts, returns, and warranty claims, if any, relating to ITEG Products, and (iv) the Additional Payment, if any, to be paid to Sellers for such Additional Period (the “Preliminary Additional Payment Report”).

(c) Promptly following receipt of the Preliminary Additional Payment Report, the Sellers’ Representative may review the same and, within 60 days after the end of the calendar year to which such Preliminary Accounting Report relates (the “ITEG Dispute Period”) may deliver to Buyer a certificate (signed by the Sellers’ Representative) setting forth its objections to the Preliminary Additional Payment as set forth in the Preliminary Additional Payment Report, together with a summary of the reasons therefor and calculations which, in its view, are necessary to eliminate such objections. If the Sellers’ Representative does not so object within the applicable ITEG Dispute Period, the Preliminary Additional Payment Report and the Preliminary Additional Payment set forth in the Preliminary Additional Payment Report shall be final and binding as the “Additional Payment Report” and the Additional Payment, respectively, for purposes of this Agreement.

(d) If Sellers so object within the applicable ITEG Dispute Period, Buyer and Sellers, acting through the Sellers’ Representative, shall use their reasonable efforts to resolve by Agreed Adjustments any differences as to the Preliminary Additional Payment Report and the Preliminary Additional Payment and, if the Sellers’ Representative and Buyer so resolve any such differences, the Preliminary Additional Payment Report and the Preliminary Additional Payment set forth in the Preliminary Additional Payment Report as adjusted by the Agreed Adjustments shall be final and binding as the Additional Payment Report and the Additional Payment for the relevant Additional Period, respectively, for purposes of this Agreement but shall not limit the representations, warranties, covenants and agreements of the parties set forth elsewhere in this Agreement. Subject to a reasonable confidentiality agreement between Buyer and Sellers, Sellers shall have the right to inspect and audit all of Buyer’s books and records reasonably necessary to evaluate the accuracy of Buyer’s determination of any Additional Payments(s) arising from or out of the sale of ITEG Products. Sellers may, at their cost and expense, engage such third party accountants as they determine in their sole discretion to conduct such an inspection and/or audit; provided, however, Buyer shall reimburse Sellers for all such costs and expenses if and to the extent that any report is materially inaccurate or Additional Payment(s) is/are discovered to be made in material error by Buyer.

(e) If any objections raised by the Sellers' Representative are not resolved by Agreed Adjustments, within the 30-day period next following the applicable ITEG Dispute Period, then Buyer and the Sellers' Representative shall submit the objections that are then unresolved to the Accounting Firm, and such firm shall be directed by Buyer and the Sellers' Representative to resolve the unresolved objections (based solely on the presentations by Buyer and by the Sellers' Representative as to whether any disputed matter had been determined in a manner consistent with Section 3.5(a)) as promptly as reasonably practicable and to deliver written notice to each of Buyer and Sellers setting forth its resolution of the disputed matters. The Preliminary Additional Payment Report and the Preliminary Additional Payment, after giving effect to any Agreed Adjustments and to the resolution of disputed matters by the Accounting Firm, shall be final and binding as the "Additional Payment Report" and the Additional Payment for the relevant Additional Period, respectively, for purposes of this Agreement but shall not limit the representations, warranties, covenants and agreements of the parties set forth elsewhere in this Agreement.

(f) The parties hereto shall make available to Buyer, the Sellers' Representative and, if applicable, the Accounting Firm, such books, records and other information (including work papers) as any of the foregoing may reasonably request to prepare or review the Preliminary Additional Payment Report or any matters submitted to the Accounting Firm. All fees and expenses charged by the Accounting Firm shall be split equally between Sellers and Buyer, respectively.

(g) Promptly (but not later than five business days) after the final determination of an Additional Payment for an Additional Period in accordance with this Section 3.5, Buyer shall pay to the Sellers' Representative, as representative of the Sellers, by wire transfer of immediately available funds to an account designated by the Sellers' Representative for the benefit of the appropriate Seller(s), in writing, an amount equal to the amount, if any, of such Additional Payment.

(h) If, at any time during any Additional Period, Buyer enters into any transaction or series of related transactions to sell that portion of the Business that includes the manufacture, distribution and sale of the ITEG Products, Buyer shall require that any successor-in-interest to the ITEG Products assume and covenant to undertake and timely and faithfully discharge all of Buyer's obligations set forth in this Section 3.5.

(i) As long as any Additional Period remains outstanding, Buyer covenants and agrees that it shall act in a commercially reasonable manner with respect to the ITEG Products and shall support the ITEG Products in a commercially reasonable manner that would not as its purpose seek to deprive the Sellers of the Additional Payments.

(j) Upon 30 days advance written notice to Buyer, Sellers (or any of them) may transfer and assign all of their, right, title and interest in and to the Additional Payments to an Equityholder or any controlled Affiliate of any Seller or Equityholder for all Additional Periods required to be made following the effective date of such notice. Following such effective date, Buyer shall make all Additional Payments due thereafter to the assignee of Sellers designated in such notice, and Sellers' permitted assignee(s) shall have all of the rights and obligations of Sellers pursuant to this Section 3.5, including without limitation the right to enforce this provision against Buyer.

3.6. Allocation of Purchase Price. Sellers and Buyer mutually agree that, for Tax purposes, they shall allocate the Purchase Price (including for purposes of this Section 3.6, the Estimated Closing Date Cash Payment, any adjustment to the Estimated Closing Date Cash Payment determined pursuant to this Agreement, any Additional Payment and any other consideration, including the Assumed Liabilities) among the Purchased Assets and the covenants not to compete granted pursuant to Section 8.1 below in a manner consistent with Section 1060 of the Code and Schedule 3.6. Within a reasonable period of time prior to the due date for filing any income Tax Return on which a payment made pursuant to this Agreement is required to be reported, Buyer shall deliver to Sellers' Representative a schedule setting forth a purchase price allocation, prepared in accordance with the preceding sentence, that takes into account all payments through the end of the period to which such Tax Return relates (each, an "Allocation Schedule"). Sellers agree that promptly after receiving an Allocation Schedule from Buyer, Sellers' Representative, as representative of Sellers, shall return an executed copy thereof to Buyer; provided that if Sellers disagree with an Allocation Schedule, Sellers' Representative shall promptly notify Buyer of such disagreement and Sellers and Buyer shall negotiate in good faith to resolve such disagreement prior to the date on which the related Tax Return is required to be filed. Sellers and Buyer covenant and agree to file all income Tax Returns (including IRS Forms 8594) in a manner consistent with the relevant Allocation Schedules, and neither Sellers nor Buyer shall take, or shall permit any Affiliate to take, any position for Tax purposes that is materially inconsistent with the Allocation Schedule on any income Tax Return or otherwise. Sellers and Buyer agree to provide the other promptly with any other information required to complete IRS Form 8594.

ARTICLE IV

CLOSING

4.1. Closing Date. The Closing shall be consummated on the second business day following the satisfaction or waiver of the conditions set forth in Articles IX and X at such time or such later date as may be agreed upon by Buyer and the Sellers' Representative after the conditions set forth in Articles IX and X have been satisfied, at the offices of Godfrey & Kahn, S.C. in Milwaukee, Wisconsin, or by electronic transmission, or at such other place or at such other time as shall be agreed upon by Buyer and Sellers. The Closing shall be deemed to have become effective as of 12:01 A.M., Milwaukee time, on the date on which the Closing is actually held, and such time and date are sometimes referred to herein as the "Closing Date."

4.2. Payment on the Closing Date. Subject to fulfillment or waiver of the conditions set forth in Article IX, at Closing, Buyer shall (i) pay the Sellers' Representative, for the benefit of Sellers, an amount equal to the Estimated Closing Date Cash Payment minus the Escrow Amount, minus an amount equal to Sellers' Indebtedness on the Closing Date (the "Closing Date Indebtedness Amount"), minus Sellers' Transaction Expenses, such amount to be paid by wire transfer of immediately available funds to a bank account in the United States specified by the Sellers' Representative in writing to Buyer at least two business days prior to the Closing, (ii) deposit the Escrow Amount in accordance with the terms of the Escrow Agreement and (iii) on behalf of Sellers, pay to the applicable recipients thereof, as specified by the Sellers' Representative in writing to Buyer at least two business days prior to the Closing, the Closing Date Indebtedness Amount and the Sellers' Transaction Expenses.

4.3. Buyer's Additional Deliveries. Subject to fulfillment or waiver of the conditions set forth in Article IX, at Closing, Buyer shall deliver to Sellers all the following:

(a) a copy of Buyer's Articles of Organization certified as of a recent date by the Department of Financial Institutions of the State of Wisconsin;

(b) a certificate of status of Buyer issued as of a recent date by the Department of Financial Institutions of the State of Wisconsin;

(c) a certificate of the secretary or an assistant secretary of Buyer, dated the Closing Date, in form and substance reasonably satisfactory to Sellers, as to (i) no amendments to the Articles of Organization of Buyer since a specified date; (ii) the limited liability company operating agreement of Buyer; (iii) the resolutions of the member of Buyer authorizing the execution, delivery and performance of this Agreement and the Buyer Ancillary Agreements and the transactions contemplated hereby and thereby; and (iv) incumbency and signatures of the officers of Buyer executing this Agreement and any Buyer Ancillary Agreement;

(d) the Instrument of Assumption duly executed by Buyer;

(e) the certificate of Buyer contemplated by Section 10.1, duly executed by an authorized officer of Buyer;

(f) the Escrow Agreement duly executed by Buyer;

(g) an opinion of counsel to Buyer substantially in the form contained in Exhibit D1;

(h) the Joseph Consulting Agreement, duly executed by Buyer;

(i) the Closing Date Retention Plan, duly adopted by Buyer; and

(j) the Subcontract, duly executed by Buyer.

4.4. Sellers' Deliveries. Subject to fulfillment or waiver of the conditions set forth in Article X, at Closing, Sellers shall deliver to Buyer all the following:

(a) a copy of the certificate or articles of incorporation or organization of each Seller certified as of a recent date by the appropriate office or agency of its state or other jurisdiction of organization;

(b) a certificate of good standing of each Seller issued as of a recent date by the appropriate office or agency of its state or other jurisdiction of organization;

(c) a certificate of the secretary or an assistant secretary of each Seller, dated the Closing Date, in form and substance reasonably satisfactory to Buyer, as to (i) no amendments to the certificate or articles of incorporation or organization of such Seller since a specified date; (ii) the bylaws and/or limited liability company operating agreement of such Seller; (iii) the resolutions of the board of directors or managers of such Seller, if applicable, and of the stockholder(s) or member(s) of such Seller authorizing the execution, delivery and performance of this Agreement and the Seller Ancillary Agreements and the transactions contemplated hereby and thereby; and (iv) incumbency and signatures of the officers of such Seller executing this Agreement and any Seller Ancillary Agreement;

(d) an opinion of counsel to Sellers and the Equityholders substantially in the form contained in Exhibit D2;

(e) the Instrument of Assignment duly executed by Sellers;

(f) certificates of title or origin (or like documents) with respect to any vehicles or other equipment included in the Purchased Assets for which a certificate of title or origin is required in order to transfer title;

(g) all consents, waivers or approvals obtained by Sellers with respect to the Purchased Assets or the consummation of the transactions contemplated by this Agreement;

(h) the Closing Date Retention Plan, duly executed by each of the participants in the Closing Date Retention Plan;

(i) an Employee Disclosure and Noncompete Agreement in the form set forth in Exhibit I, duly executed by each of the participants in the Closing Date Retention Plan;

(j) the Escrow Agreement duly executed by Sellers;

(k) the Subcontract duly executed by Sellers;

(l) a Tail Policy in full force and effect;

(m) the Joseph Consulting Agreement, duly executed by Michael Joseph;

(n) certificates of each Seller, dated as of the Closing Date and duly executed on behalf of such Seller by an authorized officer of such Seller, to the effect that the conditions to closing set forth in Sections 9.1 and 9.2 have been satisfied (the "Bring-Down Certificates");

(o) a certificate of each Seller conforming to the requirements of United States Treasury Regulations Section 1.1445-2(b)(2);

(p) a special warranty deed with respect to each of the parcels of Owned Real Property, duly executed and acknowledged by the appropriate Seller and in form and substance reasonably satisfactory to Buyer;

(q) an assignment, in recordable form, with respect to each of the leases of Leased Real Property, duly executed by the appropriate Seller and in form and substance reasonably satisfactory to Buyer;

(r) assignments, in recordable form, with respect to each of the registered Copyrights, issued Patent Rights, registered Trademarks and pending applications for the registration or issuance of any Copyrights, Patent Rights and Trademarks included in the Purchased Assets, duly executed by the appropriate Seller and in form and substance reasonably satisfactory to Buyer;

(s) evidence prior to Closing of the amount(s) necessary at Closing to pay off all Indebtedness of Sellers and the release of all Encumbrances on the Purchased Assets, other than Permitted Encumbrances, in form and in substance reasonably satisfactory to Buyer;

(t) evidence prior to Closing of the amount(s) necessary at Closing to pay off Sellers' Transaction Expenses, in form and in substance reasonably satisfactory to Buyer;

(u) evidence of the termination of the Joseph Lease, in form and in substance reasonably satisfactory to Buyer;

(v) such other bills of sale, assignments and other instruments of transfer or conveyance as Buyer may reasonably request or as may be otherwise necessary to evidence and effect the sale, assignment, transfer, conveyance and delivery of the Purchased Assets to Buyer; and

(w) transfer tax declarations duly executed and acknowledged by the entities holding the Owned Real Property and Leased Real Property, if applicable, in a form and substance reasonably satisfactory to Buyer.

In addition to the above deliveries, Sellers shall take all steps and actions as Buyer may reasonably request or as may otherwise be necessary to put Buyer in actual possession or control of the Purchased Assets.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF SELLERS AND THE EQUITYHOLDERS

As an inducement to Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, the Sellers and the Equityholders, jointly and severally, hereby represent and warrant to Buyer, and agree as follows:

5.1. Organization of Sellers and Equityholders.

(a) Schedule 5.1(A) sets forth a listing of the legal name and jurisdiction of organization of each Seller. Each Seller is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its state of organization. Each Seller is duly qualified to transact business as a foreign corporation or limited liability company, as applicable, and is in “good standing” (or the functional equivalent thereof) in each jurisdiction listed in Schedule 5.1(A), which jurisdictions are the only ones in which the ownership or leasing of the Purchased Assets or the conduct of the Business requires such qualification, except in such jurisdictions where the failure to so qualify, individually or in the aggregate, has not had, and could not reasonably be expected to have, a material adverse effect on the Purchased Assets or Business. Each Seller has full corporate or limited liability company power and authority to own or lease and to operate and use the Purchased Assets and to carry on the Business as now conducted.

(b) Each Equityholder, if not a natural person, is duly organized, validly existing and in good standing under the laws of its jurisdiction of formation or organization and has all requisite power and authority to own, lease and operate its properties and assets and to carry on its affairs as now conducted.

(c) True and complete copies of the organizational documents, as amended to date, of each Seller and each Equityholder have been made available to Buyer.

(d) All of the issued and outstanding equity interests of Sellers are held of record and beneficially owned directly or indirectly by the Equityholders. Except as set forth in Schedule 5.1(D), there are no agreements, arrangements, options, warrants, calls, rights or commitments of any character relating to the issuance, sale, purchase or redemption of any shares of capital stock or limited liability company interests of any Seller.

(e) Joseph Properties does not have assets or properties other than the Owned Real Property and carries on no business or operations other than the ownership of such Owned Real Property. MP Services does not have any assets or properties other than accounts receivable and carries on no business or operations. Except as set forth on Schedule 5.1(E), Joseph Properties and MP Services do not have any obligations or liabilities, whether direct or indirect, known or unknown, absolute or contingent.

5.2. Subsidiaries and Investments.

(a) Schedule 5.2(A) sets forth a list of each corporation, partnership, limited liability company, joint venture or other entity which is involved in or relates to the Business (i) in which a Seller, directly or indirectly, owns of record or beneficially 50% or more of the outstanding voting securities or of which it is a general partner (each such corporation, partnership, limited liability company, joint venture or other entity being referred to herein as a “Subsidiary”), (ii) in which a Seller, directly or indirectly, owns of record or beneficially any outstanding voting securities or other equity interests or (iii) which is Controlled by a Seller.

(b) Schedule 5.2(B) sets forth, with respect to each Subsidiary, (i) the authorized capital stock, partnership units, membership interests or other equity interest of such Subsidiary, (ii) the number of issued and outstanding shares of capital stock, partnership units, membership interests or other equity interest, (iii) the number of issued shares of capital stock, partnership units, membership interests or other equity interests held in treasury and (iv) the number of shares of capital stock, partnership units, membership interests or other equity interests which are unissued and not reserved for any purpose. Except as set forth in Schedule 5.2(B) and except for this Agreement, there are no agreements, arrangements, options, warrants, calls, rights or commitments of any character relating to the issuance, sale, purchase or redemption of any shares of shares of capital stock, partnership units, membership interests or other equity interests of any of the Subsidiaries. All of the outstanding shares of shares of capital stock, partnership units, membership interests or other equity interests of each of the Subsidiaries are validly issued, fully paid and nonassessable. All of the outstanding shares of capital stock, partnership units, membership interests or other equity interests of each of the Subsidiaries are owned by a Seller of record and beneficially free from all Encumbrances, except as set forth in Schedule 5.2(B).

(c) Each Subsidiary is a corporation, partnership or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and is duly qualified or licensed to transact business as a foreign entity and is in good standing in each jurisdiction listed under its name in Schedule 5.2(C), which jurisdictions are the only ones in which the ownership or leasing of such Subsidiary's assets or the conduct of such Subsidiary's business requires such qualification or licensing, except in such jurisdictions where the failure to so qualify, individually or in the aggregate, has not had, and could not reasonably be expected to have, a material adverse effect on the Purchased Assets or Business. No other jurisdiction has demanded, requested or otherwise indicated that such Subsidiary is required so to qualify or be licensed. Each Subsidiary has full corporate, partnership, limited liability company or other power and authority to own or lease and to operate and use its properties and assets and to carry on its business as now conducted.

(d) True and complete copies of the organizational documents, as amended to date, of each of the Subsidiaries have been made available to Buyer.

5.3. Authority of Sellers and Equityholders.

(a) Each Seller and each Equityholder has full power and authority and legal capacity to execute, deliver and perform this Agreement and all of the Seller Ancillary Agreements to which it is a party. The execution, delivery and performance of this Agreement and the Seller Ancillary Agreements to which it is a party by each Seller and each Equityholder has been duly authorized and approved by the trustees, boards of directors or managers, if any, and by the beneficiaries or equityholders, if any, of each Seller and each Equityholder and does not require any further authorization or consent of any Seller or Equityholder or its beneficiaries or equityholders. This Agreement has been duly authorized, executed and delivered by each Seller and each Equityholder, and is the legal, valid and binding obligation of each Seller and each Equityholder enforceable in accordance with its terms, and each of the Seller Ancillary Agreements to which it is a party has been duly authorized by each Seller and each Equityholder and upon execution and delivery by each Seller and each Equityholder will be a legal, valid and binding obligation of each Seller and each Equityholder, respectively, enforceable in accordance with its terms; provided, however, the enforceability of this Agreement, the Seller Ancillary Agreements, and each Seller Agreement is subject to: (i) applicable bankruptcy, receivership, reorganization, insolvency, moratorium, fraudulent conveyance or transfer, and other laws and judicially developed doctrines relating to or affecting creditors' or secured creditors' rights and remedies generally, and (ii) general principles of equity, regardless whether considered in a proceeding in equity or at law, and limitations on the availability of specific performance, injunctive relief, and other equitable remedies.

(b) Except as set forth in Schedule 5.3(B), neither the execution and delivery of this Agreement or any of the Seller Ancillary Agreements or the consummation of any of the transactions contemplated hereby or thereby nor compliance with or fulfillment of the terms, conditions and provisions hereof or thereof will:

(i) conflict with, result in a breach of the terms, conditions or provisions of, or constitute a default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under, or result in the creation or imposition of any Encumbrance upon any of the Purchased Assets, under (A) the articles of incorporation, articles of organization, trust instrument, limited liability company operating agreement, bylaws or similar organizational documents of Sellers and, if not a natural person, each Equityholder, (B) any Seller Agreement, (C) any other material note, instrument, agreement, mortgage, lease, license, franchise, permit or other authorization, right, restriction or obligation to which a Seller or an Equityholder is a party or any of the Purchased Assets is subject or by which a Seller or an Equityholder is bound, (D) any Court Order to which a Seller or an Equityholder is a party or any of the Purchased Assets is subject or by which a Seller or an Equityholder is bound, or (E) any Requirements of Laws affecting a Seller or an Equityholder, the Purchased Assets or the Business; or

(ii) require the approval, consent, authorization or act of, or the making by a Seller or an Equityholder of any declaration, filing or registration with, any Person, except as provided under the HSR Act.

5.4. Financial Statements of Magnum; Internal Controls.

(a) Schedule 5.4(A) contains (i) the audited consolidated balance sheets of Magnum and its Subsidiaries as of December 31, 2010 and December 31, 2009 and the related consolidated statements of income, changes in members' equity and cash flows for the two year(s) then ended, together with the appropriate notes to such financial statements and the audit report thereon of Schenck, S.C. (such audited statement of financial position of Magnum and its Subsidiaries as of December 31, 2010 being herein referred to as the "Balance Sheet" and December 31, 2010 being referred to herein as the "Balance Sheet Date"), and (ii) the unaudited consolidated balance sheet of Magnum and its Subsidiaries as of August 31, 2011 and the related consolidated statements of income, changes in members' equity and cash flows for the eight (8) months then ended. Except as set forth therein or in the notes thereto, such balance sheets and statements of income, changes in members' equity and cash flow have been prepared in conformity with U.S. generally accepted accounting principles consistently applied, and such balance sheets and related statements of income and cash flow present fairly in all material respects the financial position, results of operations and cash flows of the Sellers as of their respective dates and for the respective periods covered thereby.

(b) The books, records and accounts of the Sellers and their Subsidiaries accurately and fairly reflect in all material respects, and in reasonable detail, the transactions in and dispositions of the assets of the Sellers and their Subsidiaries. The systems of internal accounting controls maintained by the Sellers and their Subsidiaries are, taking into account the size of the Business, sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles consistently applied and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

5.5. Operations Since Balance Sheet Date.

(a) Since the Balance Sheet Date, there has been:

(i) no material adverse change in the Purchased Assets, the Business or the operations, liabilities, profits, condition (financial or otherwise) or, Sellers' Knowledge, prospects of the Sellers, and no fact or condition exists or is contemplated or, to the Sellers' Knowledge, threatened, which might reasonably be expected to cause such a change in the future; and

(ii) no damage, destruction, loss or claim, whether or not covered by insurance, or condemnation or other taking materially adversely affecting any of the Purchased Assets or the Business.

(b) Except as set forth in Schedule 5.5(B) and except for engaging in discussions regarding the sale of the Business and except for entering into this Agreement and the Seller Ancillary Agreements, since the Balance Sheet Date, Sellers have conducted the Business only in the ordinary course and in conformity with past practice. Without limiting the generality of the foregoing, since the Balance Sheet Date, except as set forth in such Schedule, Sellers have not:

(i) sold, leased (as lessor), transferred or otherwise disposed of (including any transfers by any Seller to any of its Affiliates), or mortgaged or pledged, or imposed or suffered to be imposed any Encumbrance on, any of the assets reflected on the Balance Sheet or any assets acquired by a Seller after the Balance Sheet Date, except for inventory and minor amounts of personal property sold or otherwise disposed of for fair value in the ordinary course of the Business consistent with past practice;

(ii) cancelled any debts owed to or claims held by a Seller (including the settlement of any claims or litigation) other than in the ordinary course of the Business consistent with past practice;

(iii) created, incurred or assumed, or agreed to create, incur or assume, any indebtedness for borrowed money (other than money borrowed or advances by a Seller from any of its Affiliates in the ordinary course of the Business consistent with past practice) or entered into, as lessee, any capitalized lease obligations (as defined in Statement of Financial Accounting Standards No. 13);

(iv) accelerated or delayed collection of notes or accounts receivable in advance of or beyond their regular due dates or the dates when the same would have been collected in the ordinary course of the Business consistent with past practice;

(v) delayed or accelerated payment of any account payable or other liability beyond or in advance of its due date or the date when such liability would have been paid in the ordinary course of the Business consistent with past practice;

(vi) allowed the levels of raw materials, supplies, work-in-process, finished goods or other materials included in the inventory of the Business to vary in any material respect from the levels customarily maintained in the Business, taking into account seasonality and the past business practices;

(vii) made, or agreed to make, any payment of cash or distribution of assets to a Seller or any of its Affiliates;

(viii) instituted any increase in any compensation payable to any employee of a Seller or in any profit-sharing, bonus, incentive, deferred compensation, insurance, pension, retirement, medical, hospital, disability, welfare or other benefits made available to employees of Sellers;

(ix) prepared or filed any Tax Return inconsistent with past practice or, on any such Tax Return, taken any position, made any election, or adopted any method that is inconsistent with positions taken, elections made or methods used in preparing or filing similar Tax Returns in prior periods (including positions, elections or methods which would have the effect of deferring income to periods for which Buyer is liable pursuant to Section 8.2(a) or accelerating deductions to periods for which Sellers are liable pursuant to Section 8.2(a));

(x) made any change in the accounting principles and practices used by a Seller from those applied in the preparation of the Balance Sheet and the related statements of income and cash flow for the period then ended;

(xi) made any capital expenditure with respect to the Business or entered into any contract or commitment therefor, other than capital expenditures or contracts, agreements or understandings for capital expenditures referred to in the applicable budget contained in Schedule 5.23;

(xii) made any material change to its internal control over financial reporting, or identified or became aware of any fraud or any significant deficiency or material weakness in internal control over financial reporting; or

(xiii) entered into or become committed to enter into any other material transaction except in the ordinary course of Business consistent with past practice.

5.6. No Undisclosed Liabilities. Except as set forth in Schedule 5.6, to the Sellers' Knowledge neither any Seller nor the Purchased Assets is subject to any liability (including unasserted claims), whether absolute, contingent, accrued or otherwise, other than (i) liabilities of the kind and in the amounts shown or reserved for in the Balance Sheet, and (ii) liabilities of the same nature as those set forth in the Balance Sheet that were reasonably incurred in the ordinary course of the Business after the Balance Sheet Date consistent with past practice.

5.7. Taxes

(a) Except as set forth in Schedule 5.7(A): (i) each Seller has filed all Tax Returns which are required to be filed in respect of the Business and the Purchased Assets and has paid all Taxes which have become due pursuant to such Tax Returns or pursuant to any assessment which has become payable; (ii) all such Tax Returns are complete and accurate in all material respects and disclose all Taxes required to be paid in respect of the Business and the Purchased Assets; (iii) all such Tax Returns have been examined by the relevant taxing authority or the period for assessment of the Taxes in respect of which such Tax Returns were required to be filed has expired; (iv) no Seller is currently the beneficiary of any extension of time within which to file any Tax Return; (v) there is no action, suit, investigation, audit, claim or assessment pending, proposed, issued or, to Sellers' Knowledge threatened regarding Taxes with respect to the Business and the Purchased Assets, and, to the Sellers' Knowledge, no basis exists therefor; (vi) all deficiencies asserted or assessments made as a result of any examination of the Tax Returns referred to in clause (i) have been paid in full; (vii) there are no Tax rulings, requests for rulings or closing agreements relating to the Business and the Purchased Assets which could materially affect Buyer's liability for Taxes with respect to the Business and the Purchased Assets for any period after the Closing Date; (viii) there are no liens for Taxes upon the Business and the Purchased Assets except liens relating to Taxes for the current year not yet due; (ix) Sellers have not waived or been requested to waive any statute of limitations in respect of Taxes, which waiver is currently in effect; (x) no claim has ever been made by a taxing authority in a jurisdiction where a Seller has never paid Taxes or filed Tax Returns asserting that such Seller is or may be subject to Taxes assessed by such jurisdiction; (xi) all monies required to be withheld by Sellers (including from employees of the Business for income Taxes and social security and other payroll Taxes) have been collected or withheld, and either paid to the respective taxing authorities, set aside in accounts for such purpose, or accrued, reserved against and entered upon the books of the Business; (xii) none of the Purchased Assets is properly treated as owned by persons other than Sellers for income Tax purposes; and (xiii) none of the Purchased Assets is "tax-exempt use property" within the meaning of Section 168(h) of the Code.

(b) No payment or other benefit, and no acceleration of the vesting of any options, payments or other benefits, will be, as a direct or indirect result of the transactions contemplated by this Agreement, an "excess parachute payment" to a "disqualified individual" as those terms are defined in Section 280G of the Code and the regulations thereunder. Except as set forth on Schedule 5.7(B), no payment, or other benefit, and no acceleration of the vesting of any options, payments or other benefits, will, as a direct or indirect result of the transactions contemplated by this Agreement, be (or under Section 280G of the Code and the regulations thereunder be presumed to be) a "parachute payment" to a "disqualified individual" as those terms are defined in Section 280G of the Code and the regulations thereunder, without regard to whether such payment or acceleration is reasonable compensation for personal services performed or to be performed in the future.

(c) No transaction contemplated by this Agreement is subject to withholding under Section 1445 of the Code.

5.8. Availability of Assets.

Except as set forth in Schedule 5.8 and except for the Excluded Assets, the Purchased Assets constitute all the assets used in the Business (including all books, records, computers and computer programs and data processing systems) and are in serviceable condition and are suitable for the uses for which intended and the material assets used in the Business are in good condition (subject to normal wear and tear).

5.9. Governmental Permits.

(a) Sellers own, hold or possess all licenses, franchises, permits, privileges, immunities, approvals and other authorizations from a Governmental Body which are necessary to entitle them to own or lease, operate and use the Purchased Assets and to carry on and conduct the Business substantially as currently conducted (collectively, the “Governmental Permits”). Schedule 5.9 sets forth a list and brief description of each Governmental Permit. Complete and correct copies of all of the Governmental Permits have heretofore been delivered to Buyer by Sellers.

(b) Except as set forth in Schedule 5.9, (i) each Seller has fulfilled and performed its obligations under each of the Governmental Permits, and to the Sellers’ Knowledge, no event has occurred or condition or state of facts exists which constitutes or, after notice or lapse of time or both, would constitute a breach or default under any such Governmental Permit or which permits or, after notice or lapse of time or both, would permit revocation or termination of any such Governmental Permit, or which might adversely affect the rights of Sellers under any such Governmental Permit; (ii) no notice of cancellation, of default or of any dispute concerning any Governmental Permit, or of any event, condition or state of facts described in the preceding clause, has been received by, or is known to, Sellers; and (iii) each of the Governmental Permits is valid, subsisting and in full force and effect and may be assigned and transferred to Buyer in accordance with this Agreement and will continue in full force and effect thereafter, in each case without (x) the occurrence of any breach, default or forfeiture of rights thereunder, or (y) the consent, approval, or act of, or the making of any filing with, any Governmental Body.

5.10. Real Property.

(a) Schedule 5.10(A) contains a copy of the Survey and a brief description of (i) each parcel of real property owned by Sellers and used in or relating to the Business and all easements, rights, interests and appurtenances relating thereto (the "Land") and all of the buildings, structures and other improvements located thereon, together with all fixtures to real estate, building mechanical systems, equipment and other items which are attached or appurtenant to the Land (collectively, the "Improvements;" and together with the Land, the "Owned Real Property") (showing the record title holder, legal description, permanent index number, location, improvements, the uses being made thereof and any indebtedness secured by a mortgage or other Encumbrance thereon) and (ii) each option held by Sellers to acquire any real property for use with respect to the Business. Except as may be disclosed in Schedule 5.10(B), the Sellers are not obligated or bound by any options, obligations or rights of first refusal or contractual rights to sell, lease or purchase any real property. All public utilities, including water, sewer, gas, electric, telephone and drainage facilities, give adequate service to the Owned Real Property, as it presently is being used by the Business, and the Owned Real Property has access to and from publicly dedicated streets maintained by a Governmental Body. Complete and correct copies of any title opinions, property reports and similar agreements, surveys and appraisals in Sellers' possession or any policies of title insurance currently in force and in the possession of Sellers with respect to each parcel of Owned Real Property have heretofore been delivered by Sellers to Buyer. All Improvements comply in all material respects with valid and current certificates of occupancy or similar permits to the extent required by Requirements of Laws for the use thereof, and conform in all material respects to all applicable Requirements of Laws, land use and building ordinances and health and safety ordinances. Each parcel of Owned Real Property is zoned for the purposes for which the real estate and Improvements thereon have been used in connection with the normal operation of the Business. Each parcel of Owned Real Property is separately assessed and billed for real property taxes and is not taxed on a combined basis with any real property that is not part of such parcel of Owned Real Property. No notice from any Governmental Authority has been received by the Sellers, concerning the possible imposition of any special assessments on the Owned Real Property and the Owned Real Property is not subject to any assessments. Except as set forth on Schedule 5.10(A), there are no service contracts, maintenance contracts, management agreements, leases, security contracts or other agreements entered into by the Business or the Sellers relating to the Owned Real Property or Leased Real Property which will survive the Closing, other than such *de minimis* contracts and agreements relating to the Owned Real Property or Leased Real Property which (i) are terminable at will or which have a term of less than one year, and (ii) which do not require payment by the Business in a period of one year in excess of \$5,000.

(b) Schedule 5.10(B) lists each lease or similar agreement under which (i) any Seller is lessee of, or holds or operates, any real property owned by any third Person and used in or relating to the Business (the "Leased Real Property") or (ii) any Seller is lessor of any of the Owned Real Property. Except as set forth in such Schedule, Sellers have the right to quiet enjoyment of all the Leased Real Property for the full term of the lease or similar agreement (and any renewal option related thereto) relating thereto, and the leasehold or other interest of Sellers in the Leased Real Property is not subject or subordinate to any Encumbrance except for Permitted Encumbrances. Complete and correct copies of any surveys and appraisals in Sellers' possession or any policies of title insurance currently in force and in the possession of Sellers with respect to each parcel of Leased Real Property have heretofore been delivered by Sellers to Buyer.

(c) To Sellers' Knowledge, neither the whole nor any part of the Owned Real Property or the Leased Real Property is subject to any pending or threatened suit for condemnation or other taking by any Governmental Body. Sellers have not received notice of condemnation or other taking regarding the Owned or Leased Real Property.

5.11. Personal Property. Schedule 5.11(A) contains a list of all machinery, equipment, vehicles, furniture and other tangible personal property owned by Sellers having an original cost of \$10,000 or more and used in or relating to the Business. Schedule 5.11(B) lists each lease or other agreement or right, whether written or oral, under which a Seller is lessee of, or holds or operates, any machinery, equipment, vehicle or other tangible personal property owned by a third Person and used in or relating to the Business, except for any such lease, agreement or right that is terminable by a Seller without penalty or payment on notice of 30 days or less, or which involves the payment by a Seller of rentals of less than \$10,000 per year.

5.12. Intellectual Property; Software

(a) Schedule 5.12(A) lists all registered Copyrights and applications therefor, issued Patent Rights and applications therefor, and registered Trademarks and applications therefor (including all assumed or fictitious names under which a Seller is conducting the Business or has within the previous five (5) years conducted the Business), together with a list of any material unregistered Copyrights, Patent Rights and Trademarks, each as owned by, licensed to or used by a Seller in connection with the conduct of the Business (except for any such rights relating to mass market Software licensed to or used by Sellers that is commercially available and subject to "shrink-wrap" or "click-through" license agreements).

(b) Schedule 5.12(B) contains a list and description (showing in each case any owner, licensor or licensee) of all Software owned by, licensed to or used by a Seller in the conduct of the Business; provided, that Schedule 5.12(B) does not list mass market Software licensed to or used by Sellers that is commercially available and subject to "shrink-wrap" or "click-through" license agreements.

(c) Schedule 5.12(C) contains a list and description (showing in each case the parties thereto) of all Contracts which relate to: (i) any Copyrights, Patent Rights or Trademarks required to be identified in Schedule 5.12(A); (ii) any Trade Secrets owned by, licensed to or used by a Seller in connection with the conduct of the Business; and (iii) any Software required to be identified in Schedule 5.12(B).

(d) Except as disclosed in Schedules 5.12(B), 5.12(C) and 5.12(D), a Seller either: (i) owns the entire right, title and interest in and to the Intellectual Property and Software used in the conduct of the Business, free and clear of any Encumbrance; or (ii) has the royalty-free right to use the same. Except as set forth in Schedule 5.12(D), a Seller is listed in the records of the appropriate United States, state or non-U.S. registry as the sole current owner of record for each application or registration required to be identified in Schedule 5.12(A) as being owned by Sellers.

(e) Except disclosed in Schedule 5.12(E): (i) all registrations for Copyrights, Patent Rights and Trademarks required to be identified in Schedule 5.12(A) as being owned by a Seller are valid and in force, and all applications to register any unregistered Copyrights, Patent Rights and Trademarks so identified are pending and in good standing, all, to the Sellers' Knowledge, without challenge of any kind by third parties; (ii) the Intellectual Property disclosed on Schedule 5.12(A) owned by a Seller has not been cancelled or abandoned and is valid and enforceable; (iii) a Seller has the sole and exclusive right to bring actions for infringement, misappropriation, dilution, violation or unauthorized use of the Intellectual Property and Software owned by a Seller, and to the Sellers' Knowledge, there is no basis for any such action; (iv) Sellers have taken all actions reasonably necessary to protect and where necessary register, the Intellectual Property owned by or licensed to a Seller; (v) Sellers are not in breach of any Contract affecting the Intellectual Property or Software used by Sellers and have not taken any action that would impair or otherwise adversely affect Sellers' rights in the Intellectual Property used by Sellers; and (vi) there are no pending or, to Sellers' Knowledge, threatened, interferences, re-examinations, oppositions or cancellation proceedings involving the Patent Rights or Trademarks of any Seller.

(f) Except as set forth in Schedule 5.12(F): (i) no infringement, misappropriation, violation or dilution of any Intellectual Property, or any rights of publicity or privacy relating to the use of names, likenesses, voices, signatures or biographical information, of any other Person has occurred or results in any way from the operations of the Business; (ii) no claim of any infringement, misappropriation, violation or dilution of any Intellectual Property or any such rights of any other Person has been made or asserted in writing to Sellers in respect of the operations of the Business; (iii) no claim of invalidity of any Intellectual Property owned by a Seller has been made by any other Person; (iv) no proceedings are pending or, to Sellers' Knowledge, threatened that challenge the validity, ownership or use of any Intellectual Property owned by a Seller; (v) Sellers have not had notice of, or knowledge of any basis for, a claim against Sellers that the operations, activities, products, Software, equipment, machinery or processes of the Business infringe, misappropriate, violate or dilute any Intellectual Property or any such rights of any other Person; and (vi) to the Sellers' Knowledge, no Person infringes, misappropriates or violates any Intellectual Property or Software owned or exclusively licensed to a Seller.

(g) Except as disclosed in Schedule 5.12(G), the Software owned by Sellers and required to be disclosed on Schedule 5.12(B), operates in all material respects in accordance with and conforms in all material respects in to any specifications, manuals, guides, descriptions or other similar documentation. The Software owned, licensed or used by Sellers and the computing systems and networks used by Sellers which is required to be disclosed on Schedule 5.12(B), (i) are free in all material respects of viruses, worms, trojan horses and other known contaminants, (ii) do not contain any material errors, or problems of a material nature that disrupt their operation or have an adverse impact on the operation of other software programs or operating systems, (iii) have not been subject to any breach, penetration or intrusion by an unauthorized third party, and (iv) have not been licensed by Sellers to any third party except for customers of Sellers in the ordinary course of Business. The Software owned, licensed or used by Sellers, and which is required to be disclosed on Schedule 5.12(B), are not licensed pursuant to an "open source" license, do not incorporate and are not based on any software that is licensed pursuant to an "open source" license.

(h) Except as disclosed in Schedule 5.12(H), no Intellectual Property or Software listed on Schedule 5.12(B) used in the Business is subject to any use, transfer, licensing, assignment, change of control, site, equipment, or other operational limitations, whether pursuant to a Contract or any order, judgment, writ, injunction or decree of any court or Governmental Body.

(i) Except as disclosed in Schedule 5.12(I), all employees, agents, consultants or contractors who have contributed to or participated in the creation or development of any Intellectual Property or Software on behalf of a Seller or any predecessor in interest thereto either: (i) created such materials in the scope of his or her employment; (ii) is a party to a “work-for-hire” agreement under which a Seller is deemed to be the original owner/author of all right, title and interest therein; or (iii) has executed an assignment in favor of Seller (or such predecessor in interest, as applicable) of all right, title and interest in such material.

(j) Except as disclosed in Schedule 5.12(J), each Seller has entered into Contracts with employees, consultants, officers, directors and agents sufficient to own and maintain the confidentiality of the confidential information, Trade Secrets, business processes and other know-how of the Sellers, the value of which is dependent upon the maintenance of the confidentiality thereof. There has been no unauthorized disclosure or use by consultants, officers, directors, agents or to Sellers’ Knowledge employees (other than officers and directors) of, and there has otherwise been no unauthorized disclosure or use of, confidential information, trade secret rights, business processes and other know-how of any Seller. The Sellers have taken commercially reasonable steps to prevent the unauthorized disclosure or use of confidential information, Trade Secrets, business processes and other know-how of the Sellers.

5.13. Accounts Receivable; Inventories.

(a) All accounts receivable of Sellers have arisen from bona fide transactions by Sellers in the ordinary course of the Business. All accounts receivable reflected in the Balance Sheet are good and collectible in the ordinary course of Business at the aggregate recorded amounts thereof, net of any applicable allowance for doubtful accounts reflected in the Balance Sheet; and all accounts receivable to be reflected in the Valuation Date Working Capital Statement will be good and collectible in the ordinary course of Business at the aggregate recorded amounts thereof, net of any applicable allowance for doubtful accounts, which allowance will be determined on a basis consistent with the basis used in determining the allowance for doubtful accounts reflected in the Balance Sheet.

(b) Sellers’ inventories (including raw materials, supplies, work-in-process, finished goods and other materials): (i) are, subject to obsolescence of a magnitude reflected in the reserve for inventory obsolescence contained in the Balance Sheet and the Valuation Date Working Capital Statement, in good, merchantable and useable condition, (ii) are reflected in the Balance Sheet, and will be reflected in the Valuation Date Working Capital Statement, at the lower of cost or market in accordance with generally accepted accounting principles and (iii) are, in the case of finished goods, of a quality and quantity saleable in the ordinary course of Business and, in the case of all other inventories are of a quality and quantity useable in the ordinary course of Business. The inventory obsolescence policies of Sellers are appropriate for the nature of the products sold and the marketing methods used by the Business, the reserve for inventory obsolescence contained in the Balance Sheet fairly reflects the amount of obsolete inventory as of the Balance Sheet Date, and the reserve for inventory obsolescence to be contained in the Valuation Date Working Capital Statement will fairly reflect the amount of obsolete inventory as of the Closing Date. Schedule 5.13 sets forth a list of places where material inventories of Sellers were located as of June 30, 2011.

5.14. Title to Property. Sellers have good and marketable title in fee simple absolute to all Owned Real Property and to all buildings, structures and other improvements thereon, in each case free and clear of all Encumbrances, except for Permitted Encumbrances and except as set forth in Schedule 5.14. Sellers have good and marketable title to all of the other Purchased Assets, free and clear of all Encumbrances, except for Permitted Encumbrances. Upon delivery to Buyer on the Closing Date of the instruments of transfer contemplated by Sections 4.3 and 4.4, Sellers will thereby transfer to Buyer good and marketable title to the Purchased Assets, subject to no Encumbrances, except for Permitted Encumbrances.

5.15. Employees and Related Agreements; ERISA.

(a) Schedule 5.15(A) sets forth a list of each retirement, savings, thrift, deferred compensation, severance, retention, stock ownership, stock purchase, stock option, performance, bonus, incentive, vacation or holiday pay, unemployment compensation, hospitalization or other medical, disability, life or other insurance, fringe benefit arrangement or other welfare, retiree welfare or benefit plan, policy, trust, understanding or arrangement of any kind, whether written or oral, to which a Seller or any of their Affiliates is a party or by which it is bound or pursuant to which it may be required to make any payment at any time, other than plans of the type described in Section 5.15(d) (“Sellers’ Non-ERISA Plans”).

(b) Schedule 5.15(B) sets forth a list of each (i) employee collective bargaining agreement, and (ii) agreement, commitment, understanding, plan, policy or arrangement of any kind, whether written or oral, with or for the benefit of any current or former officer, director, employee, or independent contractor (including each employment, compensation, deferred compensation, severance, supplemental pension, life insurance, termination or consulting agreement or arrangement and any agreements or arrangements associated with a change in control), to which a Seller or any of their Affiliates is a party or by which it is bound or pursuant to which it may be required to make any payment at any time, other than Sellers’ Non-ERISA Plans and other than plans of the type described in Section 5.15(d) (“Sellers’ Compensation Commitments”).

(c) Sellers have delivered or made available to Buyer correct and complete copies of all written Sellers’ Non-ERISA Plans and Sellers’ Compensation Commitments and of all related insurance and annuity policies and Contracts and other documents with respect to each Sellers’ Non-ERISA Plan and Sellers’ Compensation Commitment. Schedules 5.15(A) and 5.15(B) contain a description of all oral Sellers’ Non-ERISA Plans and Sellers’ Compensation Commitments.

(d) Schedule 5.15(D) sets forth a list of each “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA) and each “employee welfare benefit plan” (as such term is defined in Section 3(1) of ERISA) covering any employee or former employee of Sellers or any of their Affiliates with respect to the Business (collectively, “Sellers’ ERISA Plans”). Neither Sellers nor any of their Affiliates have ever maintained or contributed to any employee pension benefit plan that is subject to Title IV of ERISA and neither Sellers nor any of their Affiliates have ever been required to contribute to any “multiemployer plan” (as such term is defined in Section 3(37) of ERISA).

(e) Sellers have delivered or made available to Buyer, with respect to each of Sellers' ERISA Plans, correct and complete copies, where applicable, of (i) all plan documents and amendments, trust agreements and insurance and annuity contracts and policies, (ii) the most recent IRS determination letter, (iii) the Annual Reports (Form 5500 Series) and accompanying schedules and actuarial reports, as filed, for the most recently completed three plan years, (iv) the summary plan description currently in use and any other summary plan description in use at any time since January 1, 2008, and (v) copies of correspondence from the IRS, the Department of Labor or the Pension Benefit Guaranty Corporation regarding any plan audit or investigation or any intent to conduct a plan audit.

(f) Each of Sellers' ERISA Plans which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS that such Plan is so qualified under the Code; and, to the Sellers' Knowledge, no circumstance exists which might cause such Plan to cease being so qualified.

(g) Except as set forth on Schedule 5.15(G), each of Sellers' Non-ERISA Plans, Sellers' ERISA Plans and Sellers' Compensation Commitments complies, and has been administered to comply, with all Requirements of Law, and there has been no notice issued by any Governmental Body questioning or challenging such compliance, and there are no actions, suits or claims (other than routine claims for benefits) pending or, to the Sellers' Knowledge, threatened involving any such plan or commitment or the assets of any such plan or commitment.

(h) Neither the Sellers nor any of their Affiliates have any obligations under any of Sellers' Non-ERISA Plans, Sellers' Compensation Commitments or Sellers' ERISA Plans or otherwise to provide health or death benefits to or in respect of former employees of Sellers or any of their Affiliates, except as specifically required by the continuation requirements of Part 6 of Title I of ERISA.

(i) Neither the Sellers nor any of their Affiliates have any liability of any kind whatsoever, whether direct, indirect, contingent or otherwise, on account of (i) any violation of the health care requirements of Part 6 of Title I of ERISA or Section 4980B of the Code, (ii) under Section 502(i) or Section 502(l) of ERISA or Section 4975 of the Code, (iii) under Section 302 of ERISA or Section 412 of the Code or (iv) under Title IV of ERISA. Assuming that each of Sellers' ERISA Plans which is subject to Title IV of ERISA were terminated as of the Closing Date, Sellers would have no liability under Title IV of ERISA as a result of such termination.

(j) No litigation, arbitration or other claim has been commenced with respect to any Sellers' ERISA Plans, Sellers' Non-ERISA Plans or Sellers' Compensation Commitments and, to the knowledge of the Sellers, no such litigation, arbitration or other claim is threatened (other than routine claims for benefits in the normal operation of Sellers' ERISA Plans, Sellers' Non-ERISA Plans or Sellers' Compensation Commitments). All material contributions required to be made with respect to any Sellers' ERISA Plans, Sellers' Non-ERISA Plans or Sellers' Compensation Commitments on or before the date hereof have been made and all obligations in respect of each Sellers' ERISA Plan, Sellers' Non-ERISA Plan and Sellers' Compensation Commitment as of the date hereof have been accrued and reflected in Sellers' financial statements to the extent required by the Agreed Accounting Principles. No Sellers' ERISA Plan, Sellers' Non-ERISA Plan or Sellers' Compensation Commitment is maintained for the benefit of employees outside of the United States or is otherwise subject to the laws of any jurisdiction other than the United States or a political subdivision thereof.

(k) Each Sellers' ERISA Plan, Sellers' Non-ERISA Plan and Sellers' Compensation Commitment that is a "nonqualified deferred compensation plan" within the meaning of Section 409A(d)(1) of the Code (a "Nonqualified Deferred Compensation Plan") subject to Section 409A of the Code either (i) has been operated in compliance in all material respects with Section 409A of the Code or terminated in accordance with Section 409A of the Code, or (ii) has not been "materially modified" within the meaning of Section 885(d)(2)(B) of the American Jobs Creation Act of 2004 after October 3, 2004 and all amounts under such plans were deferred and vested as of December 31, 2004. Each Nonqualified Deferred Compensation Plan described in clause (i) of the preceding sentence that has not been terminated in accordance with Section 409A of the Code has been timely amended to comply with the requirements of Section 409A of the Code and the interpretive guidance thereunder.

(l) Schedule 5.15(L) sets forth: (i) a list of all employees of and other individuals acting as independent contractors to Sellers on and after January 1, 2011; (ii) the positions, service dates, position dates, and, if any, leave status (including a designation, if applicable, of the type of leave and whether the leave is paid or unpaid) of each such employee or person, (iii) the then current annual compensation of, and a description of the fringe benefits (other than those generally available to employees of Sellers) provided by Sellers to all employees, (iv) a list of all present or former employees of Sellers paid in excess of \$50,000 in calendar year 2010 or with an annualized salary rate in excess of \$50,000 for calendar year 2011 who have terminated or given notice of their intention to terminate their relationship with Sellers since January 1, 2011; (v) a list of any increase, effective after January 1, 2011, in the rate of compensation of any employee; (vi) a list of all substantial changes in job assignments of, or arrangements with, or promotions or appointments of, any employee whose compensation as of January 1, 2011 was in excess of \$50,000 per annum; and (vii) a list of all independent contractors or agents paid in excess of \$50,000 since January 1, 2010.

(m) Except as set forth in Schedule 5.15(M), (i) to Sellers' Knowledge, Sellers are not involved in any transaction with any employee, officer, director or Affiliate of Sellers which may be generally characterized as a "conflict of interest", including direct or indirect interests in the business of competitors, suppliers or customers of Sellers, (ii) since January 1, 2009, there have been no contracts, agreements or other arrangements of any nature between any Affiliate of a Seller, on the one hand, and a Seller, on the other hand and (iii) there are no assets or properties invented, developed, generated in, used in or necessary for Sellers or the Business (including any Intellectual Property) that following the Closing will be owned, held, used or controlled by Sellers or any of its Affiliates.

5.16. Employee Relations. Except as set forth in Schedule 5.16, Sellers have complied with all applicable Requirements of Laws relating to prices, wages, hours, discrimination in employment and collective bargaining and to the operation of the Business and is not liable for any arrears of wages or any Taxes or penalties for failure to comply with any of the foregoing. There are no pending or, to the Sellers' Knowledge, threatened claims, charges or lawsuits by employees of Sellers relating to Sellers' employment practices, terms and conditions of employment or the safety and health of Sellers' employees, including charges or investigations currently pending with the U.S. Equal Employment Opportunity Commission (EEOC), the U.S. Department of Labor (DOL), the Occupational Safety and Health Administration (OSHA), the Equal Rights Division of the State of Wisconsin Department of Workforce Development or any other Governmental Body. Sellers are not a party to, and to Sellers' Knowledge, Sellers are not affected by or threatened with, any dispute or controversy with a union or with respect to unionization or collective bargaining involving the employees of Sellers. To Sellers' Knowledge, Sellers are not adversely affected by any dispute or controversy with a union or with respect to unionization or collective bargaining involving any supplier or customer of Sellers. Schedule 5.16 lists any union organizing or election activities involving any non-union employees of Sellers which have occurred since January 1, 2006 or, to the Sellers' Knowledge, are threatened as of the date hereof.

5.17. Contracts. Except as set forth in Schedule 5.17 or any other Schedule hereto, no Seller is a party to or legally bound by:

- (i) any Contract for the purchase or sale of real property;
- (ii) any Contract for the purchase of services, materials, supplies or equipment which involved the payment of more than \$25,000 in 2010, which can reasonably be expected to involve the payment of more than \$25,000 in 2011 or which extends beyond December 31, 2011;
- (iii) any Contract for the sale of goods or services which involved the payment of more than \$25,000 in 2010, which can reasonably be expected to involve the payment of more than \$25,000 in 2011 or which extends beyond December 31, 2011;
- (iv) any Contract for the purchase, licensing or development of Intellectual Property or Software (other than mass market software licensed to a Seller that is commercially available and subject to "shrink-wrap" or "click-through" license agreements);
- (v) any consignment, distributor, dealer, manufacturers representative, sales agency, advertising representative or advertising or public relations Contract;
- (vi) any guarantee of the obligations of customers, suppliers, officers, directors, employees, Affiliates or others;
- (vii) any Contract which (1) limits or restricts where a Seller may conduct the Business or the type or line of business in which a Seller may engage, (2) grants any exclusive or preferential rights to make, sell or distribute a Seller's or any of its Affiliates' (including Buyer and its Affiliates after Closing) products or services, (3) grants "most favored nation" status to any other Person, (4) contains "requirements" provisions or other provisions obligating a Seller to purchase or obtain a minimum or specified amount of any product or service from any Person or (5) contains minimum sales or volume provisions;

(viii) any Contract which provides for, or relates to, the incurrence of indebtedness for borrowed money (including any interest rate or currency swap, cap, collar, hedge or insurance agreements, or options or forwards on such agreements, or other similar agreements for the purpose of managing the interest rate or exchange risk associated with its financing), in each case together with the outstanding aggregate principal amount, accrued but unpaid interest, prepayment premiums, penalties and similar amounts and fees and expenses associated therewith;

(ix) any Contract with a Governmental Body and any Contract with a third party acting, directly or indirectly, as a prime or sub-contractor where the services to be provided are for the ultimate benefit of a Governmental Body (a “Government Contract”);

(x) any Contract not made in the ordinary course of Business consistent with past practice; or

(xi) any other Contract which is material to a Seller.

5.18. Status of Contracts.

(a) Except as set forth in Schedule 5.18(A) or in any other Schedule hereto, each of the Contracts listed in Schedules 5.10(A), 5.10(B), 5.11(B), 5.12(C), 5.15(B) and 5.17 (collectively, the “Seller Agreements”) constitutes a valid and binding obligation of Sellers and, to the Sellers’ Knowledge, the other parties thereto, and is in full force and effect subject to the express terms and conditions thereof, and (except as set forth in Schedule 5.3) may be transferred to Buyer pursuant to this Agreement and will continue in full force and effect after the Closing, in each case without breaching the terms thereof or resulting in the forfeiture or impairment of any rights thereunder and without the consent, approval or act of, or the making of any filing with, any other party. Sellers have fulfilled and performed their respective obligations under each Seller Agreement, and no Seller is in, or alleged to be in, breach or default under, nor is there or is there alleged to be any basis for termination of, any Seller Agreement and no other party to any Seller Agreement has breached or defaulted thereunder; and, to the Sellers’ Knowledge, no event has occurred and no condition or state of facts exists which, with the passage of time or the giving of notice or both, would constitute such a default or breach by a Seller or by any such other party. No Seller currently is renegotiating any of the Seller Agreements or paying liquidated damages in lieu of performance thereunder. Except as set forth on Schedule 5.18(A), no Affiliate of a Seller is party to or has any rights in any Seller Agreement and no Seller Agreement involves both the Business and other businesses or Affiliates of Seller. Complete and correct copies of each of the Seller Agreements have heretofore been delivered to Buyer by Sellers.

(b) Except as set forth in Schedule 5.18(B), with respect to any Government Contract: (i) Sellers have not received a written cure notice, a written show cause notice or a written stop work notice, nor has any Seller been notified or, to Sellers' Knowledge, threatened in writing with termination for default or convenience; and (ii) no Seller has been audited by any Governmental Body, is currently being audited by any Governmental Body and no such audit, to Sellers' Knowledge, has been threatened by any Governmental Body.

5.19. No Violation or Litigation. Except as set forth in Schedule 5.19:

- (i) neither any Seller nor the Purchased Assets are subject to any Court Order;
- (ii) the Purchased Assets and their uses in the Business as conducted by Sellers prior to the Closing Date materially comply with all applicable Requirements of Laws and Court Orders;
- (iii) each Seller has materially complied with all Requirements of Laws and Court Orders that are applicable to the Purchased Assets or the Business;
- (iv) there are no situations with respect to any Seller or the Business which involved or involve (A) the use of any corporate funds for bribes or unlawful contributions, loans, donations, gifts, entertainment or other unlawful expenses related to political activity; (B) the making of any direct or indirect unlawful payments to government officials or others or the establishment or maintenance of any unlawful or unrecorded funds; (C) the violation of the Foreign Corrupt Practices Act of 1977, or any rules or regulations promulgated thereunder, or similar Requirements of Laws in any jurisdiction in which the Business is conducted; or (D) the receipt of any illegal discounts or rebates or any other violation of the antitrust laws;
- (v) there are no lawsuits, claims, suits, proceedings or investigations pending or, to the Sellers' Knowledge, threatened against or affecting a Seller that relate to the Purchased Assets or the Business nor, to the Sellers' Knowledge, is there any basis for any of the same, and there are no lawsuits, suits or proceedings pending in which a Seller is the plaintiff or claimant; and
- (vi) there is no action, suit or proceeding pending against Sellers or, to the Sellers' Knowledge, threatened which questions the legality or propriety of the transactions contemplated by this Agreement.

5.20. Environmental Matters. Except as set forth in Schedule 5.20:

- (i) the operations of the Business materially comply with all applicable Environmental Laws;

(ii) each Seller has obtained all environmental, health and safety Governmental Permits necessary for its operation, and all such Governmental Permits are in good standing and each Seller is in material compliance with all terms and conditions of such permits;

(iii) no Seller nor any of the present Seller Property or operations, or the past Seller Property or operations, is subject to any on-going investigation by, written order from or written agreement with any Person (including any prior owner or operator of Seller Property) respecting (x) any violation of Environmental Law by Sellers, (y) any obligation for Sellers to conduct, or reimburse Expenses for, any Remedial Action or (z) any claim of Losses and Expenses against Sellers arising from an exposure to or the Release or threatened Release of Hazardous Materials;

(iv) no Seller is currently subject to any judicial or administrative proceeding, order, judgment, decree or settlement alleging or addressing a violation of or liability under any Environmental Law;

(v) there is not now, nor to Sellers' Knowledge has there ever been, on or in any Seller Property:

(A) any underground storage tank, above ground storage tank, surface impoundment, landfill or waste pile;

(B) any polychlorinated biphenyls (PCB); or

(C) any radioactive materials;

(vi) Sellers have made available to Buyer correct and complete copies of all environmentally-related audits, Phase I and Phase II reports (including any related regulatory compliance reports or memoranda), results of site investigations or remedial actions in the Sellers' possession or that have been performed by or on behalf of Sellers within the past five years with respect to the Business or any Seller Property;

(vii) there has been no Release of any Hazardous Materials by Sellers in violation of Environmental Laws (other than such *de minimis* Releases that individually and in the aggregate have not required and could not reasonably be expected to require any Remedial Action) or which could reasonably be expected to require Remedial Action by Sellers at, on or from any Seller Property or at, on or from any third party location to which Hazardous Materials used by or generated by the Business has been sent for treatment or disposal and no Seller has received any written notice or claim to the effect that it is or may be liable to any Person as a result of the Release or threatened Release of Hazardous Materials;

(viii) no Environmental Encumbrance has attached to any Seller Property; and

(ix) none of the products manufactured, distributed or sold by Magnum (or any other Seller) with respect to the Business prior to the Closing Date, in the past or now, contained or contains asbestos or asbestos-containing material.

5.21. Insurance. Schedule 5.21 sets forth a list and brief description (including nature of coverage, limits, deductibles, premiums and the loss experience for the most recent five years with respect to each type of coverage) of all policies of insurance maintained, owned or held by Sellers on the date hereof with respect to the Purchased Assets or the Business. Each Seller has materially complied with each of such insurance policies and has not failed to give any notice or present any claim thereunder in a due and timely manner. Sellers have delivered to Buyer correct and complete copies of the most recent inspection reports, if any, received from insurance underwriters as to the condition of the Purchased Assets.

5.22. Customers and Suppliers. Schedule 5.22 sets forth (i) a list of names and addresses of the twenty-five largest customers, and the ten largest suppliers (measured by dollar volume of purchases or sales in each case) of Sellers in respect of the Business, and the relative percentages of the Business which each such customer or supplier represents (or represented) during each of the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008 and the interim period January 1, 2011, through September 30, 2011; and (ii) copies of the usual and customary forms of purchase order for inventory and other supplies, and usual and customary form of sales contracts for finished goods used by Sellers in the ordinary course of the Business. Except as set forth in Schedule 5.22, there exists no actual or, to Sellers' Knowledge, threatened termination, cancellation or material limitation of, or any material modification or change in, the business relationship of a Seller with any customer of the Business, or with any supplier of the Business; and, to the Sellers' Knowledge, presently there exists no condition or state of facts or circumstances involving customers or suppliers of the Business which Sellers believe will materially adversely affect the Business or prevent the conduct of the Business after the Closing in substantially the same manner in which it has heretofore been conducted.

5.23. Budgets. Schedule 5.23 sets forth (i) as of the date hereof the budgets of capital, payroll and other expenditures of Sellers prepared in the ordinary course of the Business consistent with past practice for the fiscal year ending December 31, 2011 and (ii) the total capital expenditures through September 30, 2011 for each capital expenditure project for which funds are proposed to be expended during 2011.

5.24. Warranties; Product Defects.

(a) Schedule 5.24(A) sets forth (i) a specimen copy of the form of written warranties covering Products which have not yet expired (identifying Products or models to which each such warranty applies) and (ii) a summary of the warranty expense incurred by Sellers with respect to the Business during each of its last three fiscal years and from January 1, 2011 through September 30, 2011. All Products have been manufactured, serviced, distributed or sold by Sellers in material conformity with all of Sellers' applicable contractual commitments and express or implied warranties. To Sellers' Knowledge, no material liability exists for any return claim, warranty claim or other obligation to provide parts and service on, or to repair or replace, any products sold or delivered by Sellers at any time on or prior to the Closing Date beyond the amounts reserved for warranty expense reflected in the Balance Sheet or expected to be reflected in the Valuation Date Working Capital Statement. No Products heretofore sold by Sellers are now the subject of any guarantee or warranty other than Sellers' standard form of written warranties, except as specifically described in Schedule 5.24(A).

(b) Schedule 5.24(B) sets forth a list of all (i) Products which have been recalled, withdrawn or suspended (other than (x) Products discontinued or suspended in the ordinary course of Business or by reason of business decisions made without regard to (1) concerns as to design or other inherent defect or risk to the safety of the users thereof or (2) concerns of any Governmental Body and (y) isolated instances with respect to particular product units which are not representative of an entire product category) since January 1, 2006, and (ii) proceedings pending against Sellers at any time since January 1, 2006 (whether such proceeding have since been completed or remain pending) seeking the recall, withdrawal, suspension or seizure of any Products or seeking to enjoin Sellers from engaging in activities pertaining to any Products.

5.25. No Finder. No Seller nor any Person acting on its behalf has paid or become obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions contemplated by this Agreement.

5.26. Disclosure. To Sellers' Knowledge, none of the representations or warranties of Sellers or Equityholders contained herein, none of the information contained in the Schedules referred to in Article V, and none of the other information or documents furnished to Buyer or any of its representatives by Sellers or their representatives pursuant to the terms of this Agreement, is false or misleading in any material respect or omits to state a fact herein or therein necessary to make the statements herein or therein not misleading in any material respect.

5.27. No Other Representations and Warranties. Except as expressly and specifically set forth in this Agreement, Buyer (and on behalf of each Buyer Group Member) hereby acknowledges that Sellers' Representative, Sellers, Equityholders, and no Seller Group Member or any third party advisor or agent acting on behalf of any of the foregoing has made or is making any representation, warranty, guarantee or other assurance to or for the benefit of Buyer or any Buyer Group Member and that, except as expressly set forth in this Agreement, the foregoing are making no other representations, warranties, guarantees or assurances regarding the Purchased Assets, Business, Owned and Leased Real Property, Contracts, financial statements and Balance Sheet, financial results of operation, or the forward looking prospects of the Business.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF BUYER

As an inducement to Sellers to enter into this Agreement and to consummate the transactions contemplated hereby, Buyer hereby represents and warrants to Sellers and agrees as follows:

6.1. Organization of Buyer. Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Wisconsin and has full power and authority to own or lease and to operate and use its properties and assets and to carry on its business as now conducted.

6.2. Authority of Buyer.

(a) Buyer has full power and authority to execute, deliver and perform this Agreement and all of the Buyer Ancillary Agreements. The execution, delivery and performance of this Agreement and the Buyer Ancillary Agreements by Buyer have been duly authorized and approved by Buyer's sole member and do not require any further authorization or consent of Buyer or such member. This Agreement has been duly authorized, executed and delivered by Buyer and is the legal, valid and binding agreement of Buyer enforceable in accordance with its terms, and each of the Buyer Ancillary Agreements has been duly authorized by Buyer and upon execution and delivery by Buyer will be a legal, valid and binding obligation of Buyer enforceable in accordance with its terms.

(b) Neither the execution and delivery of this Agreement or any of the Buyer Ancillary Agreements by Buyer or the consummation of any of the transactions contemplated hereby or thereby nor compliance with or fulfillment of the terms, conditions and provisions hereof or thereof by Buyer will:

(i) conflict with, result in a breach of the terms, conditions or provisions of, or constitute a default, an event of default or an event creating rights of acceleration, termination or cancellation or a loss of rights under (A) the articles of organization or limited liability company operating agreement of Buyer, (B) any material note, instrument, agreement, mortgage, lease, license, franchise, permit or other authorization, right, restriction or obligation to which Buyer is a party or any of its properties is subject or by which Buyer is bound, (C) any Court Order to which Buyer is a party or by which it is bound or (D) any Requirements of Laws affecting Buyer; or

(ii) require the approval, consent, authorization or act of, or the making by Buyer of any declaration, filing or registration with, any Person, except as provided under the HSR Act.

6.3. No Finder. Neither Buyer nor any Person acting on its behalf has paid or become obligated to pay any fee or commission to any broker, finder or intermediary for or on account of the transactions contemplated by this Agreement.

ARTICLE VII

ACTION PRIOR TO THE CLOSING DATE

The respective parties hereto covenant and agree to take the following actions between the date hereof and the Closing Date:

7.1. Investigation by Buyer. Sellers shall afford the officers, employees and authorized representatives of Buyer (including independent public accountants and attorneys) complete access during normal business hours to the offices, properties, employees and business and financial records (including computer files, retrieval programs and similar documentation and such access and information that may be necessary in connection with an environmental audit) of Sellers with respect to the Business to the extent Buyer shall deem necessary or desirable, and shall furnish to Buyer or its authorized representatives such additional information concerning the Purchased Assets, the Business and the operations of Sellers as shall be reasonably requested, including all such information as shall be necessary to enable Buyer or its representatives to verify the accuracy of the representations and warranties contained in this Agreement, to verify that the covenants of Sellers contained in this Agreement have been complied with and to determine whether the conditions set forth in Article IX have been satisfied; provided, however, all such due diligence investigations of Buyer and/or its agents shall: (i) be conducted with reasonable advance notice to Sellers through Sellers' Representative or the President of Magnum; (ii) not materially interfere with or impair Sellers' operation of the Business; and (iii) with respect to any employee of, customer of, or vendor to any Seller, only be conducted as and when approved in advance by Sellers' Representative or the President of Magnum (such approval not to be unreasonably withheld). No investigation made by Buyer or its representatives hereunder shall affect the representations and warranties of Sellers or Equityholders hereunder.

7.2. Preserve Accuracy of Representations and Warranties; Notification of Certain Matters .

(a) Each party hereto shall refrain from taking any action which knowingly and intentionally would render any representation or warranty contained in Article V or VI inaccurate as of the Closing Date. Each party shall promptly notify the other of any action, suit or proceeding that shall be instituted or threatened against such party to restrain, prohibit or otherwise challenge the legality of any transaction contemplated by this Agreement.

(b) During the period prior to the Closing Date, Sellers will notify Buyer of (i) any material adverse change in the condition of the Purchased Assets or the Business, (ii) any material breach of any representation, warranty, covenant or other agreement of a Seller or Equityholder under this Agreement or any Seller Ancillary Agreement, (iii) any lawsuit, claim, proceeding or investigation that is threatened, brought, asserted or commenced against Sellers which would have been listed in Schedule 5.19 if such lawsuit, claim, proceeding or investigation had arisen prior to the date hereof, (iv) any notice or other communication from any third Person alleging that the consent of such third Person is or may be required in connection with the transactions contemplated by this Agreement, and (v) any material default under any Seller Agreement or event which, with notice or lapse of time or both, would become such a default on or prior to the Closing Date and of which Sellers have knowledge.

7.3. Consents of Third Parties; Governmental Approvals.

(a) Sellers will act diligently and reasonably in attempting to obtain, before the Closing Date, the consent, approval or waiver, in form and substance reasonably satisfactory to Buyer, from any party to any Material Seller Agreement required to be obtained to assign, transfer or novate any such Agreements to Buyer or to otherwise satisfy the conditions set forth in Section 9.5; provided that neither Sellers nor Buyer shall have any obligation to offer or pay any consideration in order to obtain any such consents or approvals; and provided, further, that Sellers shall not make any agreement or understanding affecting the Purchased Assets or the Business as a condition for obtaining any such consents or waivers except with the prior written consent of Buyer. During the period prior to the Closing Date, Buyer shall act diligently and reasonably to cooperate with Sellers in attempting to obtain the consents, approvals and waivers contemplated by this Section 7.3(a). If any such consent shall not be obtained or if any attempted assignment would be ineffective or would impair Buyer's rights under the Material Seller Agreement in question so that Buyer would not in effect acquire the benefit of all such rights, Sellers, to the maximum extent permitted by Requirements of Laws and such Material Seller Agreement, shall act after the Closing as Buyer's agent in order to obtain for it the benefits thereunder and shall cooperate, to the maximum extent permitted by law and the Seller Agreement, with Buyer in any other reasonable arrangement designed to provide such benefits to Buyer. Sellers will use commercially reasonable efforts to obtain the consent, approval or waiver of any Seller Agreements (including any Material Seller Agreement consent not obtained prior to Closing and any novation of a Government Contract) within ninety (90) days after the Closing Date, to the extent the same have not been obtained prior to the Closing Date. Notwithstanding anything to the contrary set forth in any such consent, approval or waiver (including any novation of any Government Contract) or any document executed in connection therewith (including the Subcontract), nothing set forth in any such consent, approval or waiver (including any novation of any Government Contract) or any document executed in connection therewith (including the Subcontract) shall in any way limit the rights, obligations or remedies of any party to this Agreement, including the right of a party to seek indemnification hereunder.

(b) During the period prior to the Closing Date, Sellers and Buyer shall act diligently and reasonably, and shall cooperate with each other, in attempting to obtain any consents and approvals of any Governmental Body required to be obtained by them in order to assign, transfer or novate any Governmental Permits to Buyer, to permit the consummation of the transactions contemplated by this Agreement, or to otherwise satisfy the conditions set forth in Section 9.4; provided that Sellers shall not make any agreement or understanding affecting the Purchased Assets or the Business as a condition for obtaining any such consents or approvals except with the prior written consent of Buyer.

(c) Buyer and Sellers have filed with the FTC and the Antitrust Division the notifications and other information required to be filed under the HSR Act with respect to the transactions contemplated hereby. Buyer shall pay (without right of reimbursement) all filing fees required to be paid or submitted. Each party warrants that all such filings by it are or will be, as of the date filed, true and accurate and in accordance with the requirements of the HSR Act. Each of Buyer and Sellers agrees to make available to the other such information as each of them may reasonably request relative to its business, assets and property (including, in the case of Sellers, the Business) as may be required of each of them to file any additional information requested by such agencies under the HSR Act. Each of Buyer and Sellers agree to provide to the other copies of all correspondence between it (or its advisors) and any such agency relating to this Agreement or any of the matters described in this Section 7.3(c); provided that such correspondence does not contain or reveal confidential information of Buyer, Sellers or their respective Affiliates. Buyer and Sellers agree that, except as either party may otherwise agree, all telephonic calls and meetings with such agencies regarding the transactions contemplated hereby or any of the matters described in this Section 7.3(c) shall include representatives of each of Buyer and Sellers. Notwithstanding anything to the contrary contained in Section 7.3 or elsewhere in this Agreement, Buyer shall not have any obligation under this Agreement to divest or agree to divest (or cause any of its Affiliates to divest or agree to divest) any of its respective businesses, product lines or assets or to take or agree to take (or cause any of its Affiliates to take or agree to take) any other action or to agree (or cause any of its Affiliates to agree) to any limitation or restriction on any of its respective businesses, product lines or assets.

7.4. Operations Prior to the Closing Date. (a) Sellers shall operate and carry on the Business only in the ordinary course and substantially as presently operated. Consistent with the foregoing, Sellers shall keep and maintain the Purchased Assets in good operating condition and repair and shall use their reasonable best efforts consistent with good business practice to maintain the business organization of Sellers intact and to preserve the goodwill of the suppliers, contractors, licensors, employees, customers, distributors and others having business relations with Sellers.

(b) Notwithstanding Section 7.4(a), except as expressly contemplated by this Agreement or except with the express written approval of Buyer, Sellers shall not:

(i) make any change in the Business or the operations of Sellers with respect to the Business;

(ii) make any capital expenditure with respect to the Business or enter into any contract or commitment therefor, other than capital expenditures or contracts, agreements or understandings for capital expenditures referred to in the applicable budget contained in Schedule 5.23;

(iii) except as contemplated by Schedule 5.23, enter into any contract, agreement, undertaking or commitment which would have been required to be set forth in Schedule 5.17 if in effect on the date hereof or enter into any contract which cannot be assigned to Buyer or a permitted assignee of Buyer under Section 13.5;

(iv) enter into any contract for the purchase of real property to be used in the Business or for the sale of any Owned Real Property or exercise any option to purchase real property listed in Schedule 5.10(A) or any option to extend a lease listed in Schedule 5.10(B);

(v) terminate or fail to renew any Contracts for insurance;

(vi) sell, lease (as lessor), transfer or otherwise dispose of (including any transfers by a Seller to any of its Affiliates), or mortgage or pledge, or impose or suffer to be imposed any Encumbrance on, any of the Purchased Assets, other than inventory and minor amounts of personal property sold or otherwise disposed of for fair value in the ordinary course of the Business consistent with past practice and other than Permitted Encumbrances;

(vii) cancel any debts owed to or claims held by Sellers with respect to the Business (including the settlement of any claims or litigation) other than in the ordinary course of the Business consistent with past practice;

(viii) create, incur or assume, or agree to create, incur or assume, any indebtedness for borrowed money in respect of Sellers or enter into, as lessee, any capitalized lease obligations (as defined in Statement of Financial Accounting Standards No. 13);

(ix) accelerate or delay collection of any notes or accounts receivable generated by the Business in advance of or beyond their regular due dates or the dates when the same would have been collected in the ordinary course of the Business consistent with past practice;

(x) delay or accelerate payment of any account payable or other liability of the Business beyond or in advance of its due date or the date when such liability would have been paid in the ordinary course of the Business consistent with past practice;

(xi) allow the levels of raw materials, supplies, work-in-process, finished goods or other materials included in the inventory of the Business to vary in any material respect from the levels customarily maintained in the Business;

(xii) make, or agree to make, any payment of cash or distribution of assets to a Seller or any of its Affiliates (other than cash realized upon collection of receivables generated in the ordinary course of the Business);

(xiii) institute any increase in any profit-sharing, bonus, incentive, deferred compensation, insurance, pension, retirement, medical, hospital, disability, welfare or other employee benefit plan with respect to employees of Sellers;

(xiv) make any change in the compensation of the employees of Sellers, other than changes made in accordance with normal compensation practices and consistent with past compensation practices;

(xv) communicate with any employee regarding any compensation or benefits to be provided by Buyer or any of its Affiliates after the Closing without the prior consent of Buyer;

(xvi) prepare or file any Tax Return inconsistent with past practice or, on any such Tax Return, take any position, make any election, or adopt any method that is inconsistent with positions taken, elections made or methods used in preparing or filing similar Tax Returns in prior periods (including positions, elections or methods which would have the effect of deferring income to periods for which Buyer is liable pursuant to Section 8.2(a) or accelerating deductions to periods for which Sellers are liable pursuant to Section 8.2(a)); or

(xvii) make any change in the accounting policies applied in the preparation of the financial statements contained in Schedule 5.4(A).

7.5. Reasonable Efforts. Prior to the Closing: (a) the Sellers and the Equityholders shall use commercially reasonable efforts to cause the conditions set forth in Article IX to be satisfied on a timely basis and (b) Buyer shall use commercially reasonable efforts to cause the conditions set forth in Article X to be satisfied on a timely basis.

7.6. Commitment for Title Insurance; Surveys. Sellers shall cause to be delivered to Buyer not less than five days prior to the Closing Date, with respect to each parcel of Owned Real Property (i) a current ALTA commitment for a Title Policy and (ii) a Survey.

7.7. Acquisition Proposals. Sellers will not, and will not authorize or permit any officer, director or employee of Sellers or any Affiliate of a Seller or any investment banker, attorney, accountant or other representative retained by Sellers or any Affiliate of Sellers to, directly or indirectly, solicit, encourage, facilitate, or furnish information with respect to the Business to or engage in any discussions with any Person in connection with, any proposal for the acquisition of all or a material portion of the Business, other than as contemplated by this Agreement. Sellers will promptly cease or cause to be terminated any existing activities or discussions with any Person with respect to any of the foregoing and will promptly request the return of any confidential information provided to any Person in connection with a prospective acquisition of the Business or any material portion thereof, other than Buyer.

ARTICLE VIII

ADDITIONAL AGREEMENTS

8.1. Covenant Not to Compete or Solicit Business.

(a) In furtherance of the sale of the Purchased Assets and the Business to Buyer hereunder by virtue of the transactions contemplated hereby and more effectively to protect the value and goodwill of the Purchased Assets and the Business so sold, Thomas Joseph, Michael Joseph and Sellers severally covenant and agree that, for a period ending on the fifth (5th) anniversary of the Closing Date, each of Thomas Joseph, Michael Joseph and Sellers shall not, and shall cause their respective Affiliates not to, directly or indirectly (whether as principal, agent, independent contractor, partner or otherwise):

(i) own, manage, operate, control, participate in, perform services for, sell materials to, or otherwise carry on, a business similar to or competitive with the Business anywhere in the world (it being understood by the parties hereto that the Business is not limited to any particular region of the world and that the Business may be engaged in effectively from any location in the world);

(ii) induce or attempt to persuade any employee, agent, supplier or customer of the Business, Sellers or any Affiliate of a Seller with respect to the Business to terminate such employment, agency or business relationship in order to enter into any such relationship on behalf of any other business organization in competition with the Business;

(iii) hire or induce or attempt to persuade any of the Transferring Employees to terminate his or her employment relationship with respect to the Business in order to enter into any employment or business relationship on behalf of any other business organization; or

(iv) make (or cause to be made) to any Person any disparaging, derogatory or other negative or false statement about Sellers, the Business, Buyer or any of Sellers' or Buyer's respective Affiliates (including with respect to the products, services, equipment, suppliers, policies, practices, operations, employees or directors of any such Person);

provided, however, that nothing set forth in this Section 8.1 shall prohibit Thomas Joseph, Michael Joseph or a Seller or of their respective Affiliates from owning not in excess of one percent (1%) in the aggregate of any class of capital stock of any corporation if such stock is publicly traded and listed on any national or regional stock exchange or on the Nasdaq Stock Market. Each of Thomas Joseph, Michael Joseph and each Seller also covenants and agrees that from and after the Closing Date it will not, and will not permit any of its Affiliates to, divulge or make use of any trade secrets or other confidential information of the Business other than to disclose such secrets and information to Buyer or its Affiliates.

(b) If Thomas Joseph, Michael Joseph, Sellers or any of their respective Affiliates violates any of its obligations under this Section 8.1, Buyer may proceed against such Person in law or in equity for such damages or other relief as a court may deem appropriate. Each of Thomas Joseph, Michael Joseph and Sellers hereby acknowledges that a violation of this Section 8.1 may cause Buyer irreparable harm which may not be adequately compensated for by money damages. Thomas Joseph, Michael Joseph and each Seller therefore agrees that in the event of any actual or threatened violation of this Section 8.1, Buyer shall be entitled, in addition to other remedies that it may have, to a temporary restraining order and to preliminary and final injunctive relief against Thomas Joseph, Michael Joseph or Sellers or such Affiliate to prevent any violations of this Section 8.1, without the necessity of posting a bond. The prevailing party in any action commenced under this Section 8.1 shall also be entitled to receive reasonable attorneys' fees and court costs. It is the intent and understanding of each party hereto that if, in any action before any court or agency legally empowered to enforce this Section 8.1, any term, restriction, covenant or promise in this Section 8.1 is found to be unreasonable and for that reason unenforceable, then such term, restriction, covenant or promise shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

8.2. Taxes.

(a) Sellers and/or Equityholders shall be liable for and shall pay all Taxes (whether assessed or unassessed) applicable to the Business, the Purchased Assets and the Assumed Liabilities, in each case attributable to taxable years or periods ending on or prior to the Closing Date and, with respect to any Straddle Period, the portion of such Straddle Period ending on and including the Closing Date. Buyer shall be liable for and shall pay all Taxes (whether assessed or unassessed) applicable to the Business, the Purchased Assets and the Assumed Liabilities that are attributable to taxable years or periods beginning after the Closing Date and, with respect to any Straddle Period, the portion of such Straddle Period beginning after the Closing Date; provided, that Buyer shall not be liable for any Taxes for which Sellers and/or Equityholders are liable under this Agreement, including pursuant to the preceding sentence or Section 5.7. For purposes of this Section 8.2, any Straddle Period shall be treated on a “closing of the books” basis as two partial periods, one ending at the close of the Closing Date and the other beginning on the day after the Closing Date, except that Taxes (such as property Taxes) imposed on a periodic basis shall be allocated on a daily basis.

(b) Notwithstanding Section 8.2(a), any sales Tax, use Tax, real property transfer or gains Tax, asset transfer Tax, documentary stamp Tax or similar Tax attributable to the sale or transfer of the Business, the Purchased Assets or the Assumed Liabilities shall be split equally between Buyer and Sellers. For purposes of the calculation and payment of transfer taxes at the Closing, Buyer and Sellers mutually agree that the Owned Real Estate shall be valued at One Million Nine Hundred Ninety-five Thousand dollars (\$1,995,000). Buyer agrees to timely sign and deliver such certificates or forms as may be necessary or appropriate to establish an exemption from (or otherwise reduce), or file Tax Returns with respect to, such Taxes.

(c) Sellers or Buyer, as the case may be, shall provide reimbursement for any Tax paid by one party all or a portion of which is the responsibility of the other party in accordance with the terms of this Section 8.2. Within a reasonable time prior to the payment of any such Tax, the party paying such Tax shall give notice to the other party of the Tax payable and the portion which is the liability of each party, although failure to do so will not relieve the other party from its liability hereunder.

(d) After the Closing Date, each of Sellers and Buyer shall (and shall cause their respective Affiliates to):

(i) assist the other party in preparing any Tax Returns which such other party is responsible for preparing and filing;

(ii) cooperate fully in preparing for any audits of, or disputes with taxing authorities regarding, any Tax Returns required to be filed in respect of the Business or the Purchased Assets;

(iii) make available to the other and to any taxing authority (upon written approval of the other or as compelled by law after consultation with the other) as reasonably requested all information, records and documents relating to Taxes with respect to the Business or the Purchased Assets;

(iv) provide timely notice to the other in writing of any pending or threatened Tax audits or assessments relating to Taxes with respect to the Business or the Purchased Assets for taxable periods for which the other may have a liability under this Section 8.2; and

(v) furnish the other with copies of all correspondence received from any taxing authority in connection with any Tax audit or information request with respect to any such taxable period for which the other may have liability under this Section 8.2.

(e) Notwithstanding anything to the contrary in this Agreement, the obligations of the parties set forth in this Section 8.2 shall be unconditional and absolute and shall remain in effect without limitation as to time.

8.3. Employees Matters.

(a) Buyer or one of its Affiliates shall offer employment (contingent on the Closing) to all of the employees listed on Schedule 8.3 who are either (i) actively employed as of the date hereof or (ii) absent from work on an authorized leave of absence as of the date hereof and have the right to return to employment following the expiration of such absence under applicable Requirements of Laws; provided, however, each such employee shall be offered employment by Buyer subject to Buyer's usual and customary, lawful, hiring and employment screening practices, which may include background checks, drug testing, and similar pre-employment screening protocols. Each offer of employment shall provide for substantially comparable terms and conditions of employment, in the aggregate, with respect to position, duties, compensation and benefits, as were in effect for or applicable to such employee on the date immediately preceding the date of the offer of employment (as determined by Buyer in its sole discretion). Sellers shall use their reasonable best efforts to have all of Sellers' employees to whom Buyer offers employment accept such offers. Such individuals who accept such offer of employment in accordance with its terms and actually begin performing services for Buyer (or one of its Affiliates) on the first Business Day after the Closing Date on which the employee is scheduled to perform work for Buyer (or one of its Affiliates) are hereinafter referred to as the "Transferring Employees." To the extent permitted in the applicable employee benefit plans and related insurance contracts, for all Transferring Employees, Buyer shall cause any employee benefit plans that cover the Transferring Employees to recognize each Transferred Employee's service prior to the Closing with Sellers and their Affiliates (including service with any other employer that was recognized by Sellers or their Affiliates) for purposes of terms of employment, eligibility, vesting and benefit accruals (but not for purposes of benefit accrual under a defined benefit pension plan) under such plans and programs, including vacation, sick or other paid leave, severance benefits and employer contribution rates under retirement plans. Notwithstanding anything set forth herein to the contrary, (i) nothing in this Agreement shall create any obligation on the part of the Buyer to continue the employment of any employee for any period following the Closing Date and (ii) nothing in this Agreement shall preclude Buyer from altering, amending or terminating any of its employee benefit plans, or the participation of any of its employees in such plans, at any time.

(b) Neither Buyer nor any of its Affiliates shall have any liabilities or obligations: (i) related to any employee of Sellers who does not become a Transferring Employee; or (ii) related to Transferring Employees to the extent such liability or obligation arises from any action, event, course of conduct, injury or illness occurring on or prior to the Closing Date. With respect to each Transferring Employee, each Seller shall retain the obligation and liability for any workers' compensation or similar workers' protection claims with respect to any such individual, whether incurred prior to, on or after the Closing Date which are the result of an injury or illness originating prior to the Closing Date. Except as otherwise provided for in Section 2.3, neither the Buyer nor any of its Affiliates shall assume or be obligated to pay, perform or discharge any liability, responsibility or obligation under, with respect to or arising in connection with any Sellers' Non-ERISA Plans, Sellers' Compensation Commitments, Sellers' ERISA Plans or any other plans or arrangements maintained for the benefit of any employee of Sellers. Sellers shall be responsible for satisfying "continuation coverage" requirements for all "group health plans" under Section 4980B of the Code, Part 6 of Title I of ERISA and comparable state law with respect to each employee of Sellers who does not become a Transferring Employee (and any spouse, dependents or beneficiary of such employee) and with respect to each former employee of Sellers whose employment terminated before the Closing Date and any spouse, dependents or beneficiary of such former employee of Sellers.

(c) Sellers shall transfer to Buyer on the Closing Date complete copies of the personnel records of Sellers' employees who become Transferring Employees.

(d) Within four business days of the Closing Date, Sellers shall pay the Transaction Bonuses, the Management Bonuses and the Years-of-Service Bonuses.

8.4. Change in Corporate Name. Each Seller whose name contains the word "Magnum" or "CH&E" agrees promptly after the Closing Date to change its corporate name to a name that does not include the word "Magnum" or "CH&E" or any variation of either of the foregoing.

8.5. Warranty Claims; Product Liability Claims.

(a) After the Closing, as contemplated by Section 2.3, Buyer shall provide or cause to be provided all service, repair or replacement ("Warranty Service") with respect to Products manufactured, distributed or sold by Sellers on or prior to the Closing Date for claims ("Seller Warranty Claims") made under the standard warranties of Sellers for Seller Products as set forth in Schedule 5.24(A) ("Seller Warranties") and Sellers shall reimburse Buyer for Warranty Costs (as defined below) incurred with respect to Seller Warranty Claims, but only to the extent that all such Warranty Costs in the aggregate exceed the amount of the reserve for warranty expense reflected in the Valuation Date Working Capital Statement and taken into account in the determination of the Closing Date Cash Payment (the "Warranty Reserve"). "Warranty Costs" means an amount equal to the sum of (i) either (A) if a third party performs the Warranty Services, any and all third party costs and expenses charged to Buyer for such Warranty Services or (B) if Buyer performs the Warranty Services, any and all direct labor costs and the costs of any parts or replacement products, but excluding any indirect or overhead costs or expenses (or allocations thereof), plus (ii) five percent (5%) of the amount specified in clause (i)(A) or (i)(B), as applicable, plus (iii) all applicable shipping, freight and Taxes. If Buyer satisfies a Seller Warranty Claim through payment of cash or by credit in accordance with Sellers' standard warranty, then "Warranty Costs" means the amount so paid or credited. If and to the extent that warranties of a third party will, or are reasonably likely to, provide a defense and/or indemnity in respect of any Seller Warranty Claims, Buyer shall (and shall cause each Buyer Group Member to) use its commercially reasonable efforts to recover proceeds available under such third party warranties.

(b) Buyer shall periodically (but no more frequently than monthly) invoice Sellers amounts owed to Buyer under this Section 8.5. The invoices shall specify the Warranty Costs in reasonable detail. All invoices shall be paid net thirty days of receipt. Buyer shall provide such supporting information with respect to any invoice as Sellers shall from time to time reasonably request. In the event the actual Warranty Costs incurred by the Buyer within the period ending three (3) months after the expiration of all warranty periods of Seller Warranties applicable to the Products are less than the amount of the Warranty Reserve, the Buyer shall pay the difference between the amount of the Reserve and the amount of the Warranty Costs to the Seller. For purposes of this Section 8.5, the warranty periods of all Products shall be deemed to expire, regardless of whether such Products have been sold or delivered to end-user customers, no later than thirty (30) months after the Closing Date

(c) Pursuant to Section 11.2(a)(ii), Buyer agrees to indemnify and hold harmless each Seller Group Member from and against any and all Losses and Expenses incurred by such Seller Group Member with respect to any Product Liability Claim relating to products of the Business that are manufactured and sold by Buyer or its Affiliates following the Closing.

(d) Pursuant to Section 11.1(a)(iii), each Seller and each Equityholder agrees, jointly and severally, to indemnify and hold harmless each Buyer Group Member from and against any and all Losses and Expenses incurred by such Buyer Group Member with respect to any Product Liability Claim relating to any Products; provided, however, that Sellers and Equityholders shall have no obligation to indemnify a Buyer Group Member to the extent that a Product Liability Claim relates to a modification or other alternation of a product made by the Buyer or its Affiliates following the Closing.

8.6. Insurance.

(a) Solely and exclusively with respect to Sellers' operation of the Business prior to the Closing Date, if at any time after the Closing, any Person asserts a claim with respect to the Business against Buyer or any of its Affiliates or any of their Purchased Assets which is covered by insurance maintained by the Sellers with respect to the Business as of the date hereof (a "Post-Closing Insurance Claim"), then Sellers shall use commercially reasonable efforts to provide Buyer with the benefit of any insurance policies of Sellers or their respective Affiliates that relate to the applicable Post-Closing Insurance Claim ("Business Insurance Policies") and, following the Closing, and at Sellers' expense, to include Buyer as a named insured on such policies. Sellers shall not, and shall cause its Affiliates not to, assign or otherwise transfer (including without limitation in any liquidation or dissolution) any interest or right in or to any Business Insurance Policy without requiring, prior to any such assignment or transfer, the applicable assignee or transferee to agree with Buyer to be bound by this Section 8.6.

(b) Prior to Closing, the Sellers shall purchase a Tail Policy which provides product liability insurance covering any Product Liability Claims relating to the Products in form and substance reasonably acceptable to Buyer which names Buyer as an additional insured. Sellers shall notify Buyer at least thirty (30) days prior to any planned modification of the Tail Policy and obtain Buyer's consent prior to implementing any such modification. Sellers shall pay all premiums associated with the Tail Policy purchased by Seller pursuant to this paragraph.

8.7. Release. Except as set forth in the following sentence and subject to the limitations set forth therein, each Seller and each Equityholder will, and hereby does, effective as of the Closing, release and forever discharge each Buyer (as successor to and assignee of the Business) and Seller and each of their respective managers, directors, officers, employees, Affiliates, agents and representatives from any and all actions, suits, debts, liens, sums of money, accounts, judgments, claims and demands whatsoever, at law or in equity, either in contract or in tort, whether known or unknown, on account of, arising out of or relating to any act or omission of any kind or character whatsoever of each Seller or any predecessor of each Seller occurring at or prior to the Closing or any operations of each Seller's or any of its predecessor's businesses at or prior to the Closing, including the calculation and payment of any and all accrued and unpaid dividends or arising out of or related to the Seller's or Equityholder's acquisition or ownership of membership interests in a Seller; provided, however, that such claims shall not include claims arising out of this Agreement or any Seller Ancillary Agreement or claims by employees of a Seller for accrued compensation or benefits arising in the ordinary course of Business consistent with past practice in an amount not in excess of the amount set forth with respect to such claims in the Valuation Date Working Capital Statement or to the extent that such claims constitute an Excluded Liability, or pursuant to the Closing Date Retention Plan.

ARTICLE IX

CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER

The obligations of Buyer under this Agreement shall, at the option of Buyer, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

9.1. No Misrepresentation or Breach of Covenants and Warranties. There shall have been no material breach by a Seller or Equityholder in the performance of any of its covenants and agreements herein; each of the representations and warranties of Sellers and Equityholders contained or referred to herein that is not qualified as to materiality shall be true and correct in all material respects on the Closing Date as though made on the Closing Date and each of the representations and warranties of Sellers and Equityholders contained or referred to herein that is qualified as to materiality shall be true and correct in all respects on the Closing Date as though made on the Closing Date, except, in each case, for changes therein specifically permitted by this Agreement or resulting from any transaction expressly consented to in writing by Buyer or any transaction permitted by Section 7.4.

9.2. No Changes or Destruction of Property. Between the date hereof and the Closing Date, there shall have been no event, development or effect that has resulted in, or that, when taken as a whole, could reasonably be expected to result in, (a) a material adverse change in the Purchased Assets, the Business or the operations, liabilities, profits, or condition (financial or otherwise) of Sellers with respect to the Business (other than and excluding a generalized economic condition which affects, or which could affect, the Business in a non-specific manner); (b) a material adverse federal or state legislative or regulatory change affecting the Business or its products or services; or (c) material damage to the Purchased Assets by fire, flood, casualty, act of God or other cause, regardless of insurance coverage for such damage.

9.3. No Restraint or Litigation. The waiting period under the HSR Act shall have expired or been terminated, and no action, suit, investigation or proceeding shall have been instituted or threatened to restrain or prohibit or otherwise challenge the legality or validity of the transactions contemplated hereby.

9.4. Necessary Governmental Approvals. The parties shall have received all approvals and actions of or by all Governmental Bodies which are necessary to consummate the transactions contemplated hereby, which are either specified in Schedule 5.3 or otherwise required to be obtained prior to the Closing by applicable Requirements of Laws or which are necessary to prevent a material adverse change in the Purchased Assets, the Business or the operations, liabilities, profits, prospects or condition (financial or otherwise) with respect to the Business.

9.5. Necessary Consents. Sellers shall have received (or Buyer shall have waived in writing the requirement of obtaining), consents, in form and substance reasonably satisfactory to Buyer, to the transactions contemplated hereby from the other parties to all Seller Agreements and Governmental Permits of the Business, respectively, to which a Seller is a party and which are specified in Schedule 9.5 (such Seller Agreements, the “Material Seller Agreements”).

9.6. Customer Due Diligence. Buyer shall be satisfied, in its sole discretion, with the results of its due diligence regarding Sellers’ customer relationships set forth in Schedule 9.6, following joint meeting with such customers conducted by Sellers and Buyer prior to Closing.

9.7. Title Insurance. Buyer shall have received a Title Policy with respect to each parcel of the Owned Real Property.

9.8. Sellers’ Deliveries. Sellers shall have made all of the deliveries set forth in Section 4.4.

9.9. SNDAs and Estoppels. With respect to any leases, subleases or occupancy agreements affecting any of the Owned Real Property or Leased Real Property, subordination, non-disturbance and attornment agreements executed by the landlord and tenant (or sublandlord and subtenant, as applicable) thereunder in form and substance reasonably acceptable to Buyer or its lender, and/or estoppel certificates executed by any tenant, subtenant or occupant of any portion of the Owned Real Property or Leased Real Property, or any other Person holding rights’ with respect thereto (including any owners’ association or similar entity holding lien rights with respect to any Owned Real Property or Leased Real Property) certifying as to such factual matters as Buyer or its lender may request.

ARTICLE X

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS

The obligations of Sellers under this Agreement shall, at the option of Sellers, be subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

10.1. No Misrepresentation or Breach of Covenants and Warranties. There shall have been no material breach by Buyer in the performance of any of its covenants and agreements herein; each of the representations and warranties of Buyer contained or referred to in this Agreement that is not qualified as to materiality shall be true and correct in all material respects on the Closing Date as though made on the Closing Date and each of the representations and warranties of Buyer contained or referred to in this Agreement that is qualified as to materiality shall be true and correct in all respects on the Closing Date as though made on the Closing Date, except, in each case, for changes therein specifically permitted by this Agreement or resulting from any transaction expressly consented to in writing by Sellers or any transaction contemplated by this Agreement; and there shall have been delivered to Sellers a certificate to such effect, dated the Closing Date and signed on behalf of Buyer by an authorized officer of Buyer.

10.2. No Restraint or Litigation. The waiting period under the HSR Act shall have expired or been terminated, and no action, suit or proceeding by any Governmental Body shall have been instituted or threatened to restrain, prohibit or otherwise challenge the legality or validity of the transactions contemplated hereby.

10.3. Necessary Governmental Approvals. The parties shall have received all approvals and actions of or by all Governmental Bodies necessary to consummate the transactions contemplated hereby, which are required to be obtained prior to the Closing by applicable Requirements of Laws.

10.4. Buyer Deliveries. Buyer shall have made all of the deliveries set forth in Section 4.3.

ARTICLE XI

INDEMNIFICATION

11.1. Indemnification by Sellers and Equityholders.

(a) Subject to the limitations set forth herein, each Seller and each Equityholder agrees, jointly and severally, to indemnify and hold harmless each Buyer Group Member from and against any and all Losses and Expenses incurred by such Buyer Group Member (whether or not such Losses and Expenses involve a Third Person Claim (as defined below)) in connection with or arising from:

(i) the failure of a Seller to pay, perform or discharge any Excluded Liability;

(ii) any breach of any warranty or the inaccuracy of any representation of a Seller or an Equityholder contained in this Agreement, or any inaccuracy in any certificate delivered by or on behalf of Sellers pursuant hereto (without, solely for the purpose of determining Losses and Expenses (and not for determining whether any breach of any warranty or the inaccuracy of any representation has occurred), giving effect to any materiality, material adverse effect or similar qualifications limiting the scope of such representation, warranty or certification);

(iii) any breach by a Seller or Equityholder of any of its covenants or agreements, or any failure of a Seller or Equityholder to perform any of its obligations, expressly set forth in this Agreement;

(iv) any failure of a Seller to obtain prior to the Closing any consent set forth in Schedule 9.5;

(v) the matters set forth on Schedule 11.1(A)(v); or

(vi) the matter described in Section 11.11;

provided, however, that:

(A) no Seller and no Equityholder shall be required to indemnify and hold harmless a Buyer Group Member under clause (ii) of this Section 11.1(a) with respect to Losses and Expenses incurred by Buyer Group Members (other than Losses and Expenses incurred as a result of inaccuracies of the representations and warranties contained in Sections 5.1 (Organization of Sellers and Equityholders), 5.2 (Subsidiaries and Investments), 5.3 (Authority of Sellers and Equityholders), 5.7 (Taxes), 5.14 (Title to Property) and 5.15 (Employees and Related Agreements; ERISA) as to which this proviso shall have no effect) until the aggregate amount of such Losses and Expenses subject to indemnification by Sellers and Equityholders exceeds \$400,000 (the "Deductible"), and once such amount is exceeded, each Seller and each Equityholder shall indemnify the Buyer Group Members only for Losses and Expenses exceeding the Deductible;

(B) in no event shall the aggregate amount required to be paid by all Sellers or Equityholders pursuant to Section 11.1(a)(ii) (other than Losses and Expenses incurred as a result of inaccuracies of the representations and warranties contained in Sections 5.1 (Organization of Sellers and Equityholders), 5.2 (Subsidiaries and Investments), 5.3 (Authority of Sellers and Equityholders), 5.7 (Taxes), 5.14 (Title to Property) and 5.15 (Employees and Related Agreements; ERISA)) exceed \$6,000,000; and

(C) in no event shall the aggregate amount required to be paid by Sellers and Equityholders pursuant to Section 11.1(a)(ii) for Losses and Expenses incurred by a Buyer Group Member as a result of inaccuracies of representations and warranties contained in Sections 5.1 (Organization of Sellers and Equityholders), 5.2 (Subsidiaries and Investments), 5.3 (Authority of Sellers and Equityholders), 5.7 (Taxes), 5.14 (Title to Property) and 5.15 (Employees and Related Agreements; ERISA) exceed the Purchase Price (as adjusted pursuant to Section 3.1).

(b) The indemnification provided for in Section 11.1(a) shall terminate eighteen (18) months after the Closing Date (and no claims may be made against any Seller Group Member or Equityholder by any Buyer Group Member under Section 11.1(a) thereafter), except that the indemnification by Sellers and Equityholders shall continue as to:

(i) the representations and warranties set forth in Sections 5.1 (Organization of Sellers and Equityholders), 5.2 (Subsidiaries and Investments), 5.3 (Authority of Sellers and Equityholders), 5.14 (Title to Property) and 5.15 (Employees and Related Agreements; ERISA) and the covenants of Sellers set forth in Sections 3.6 (Allocation of Purchase Price), 8.2 (Taxes), 8.3 (Employees and Employee Benefit Plans), 8.5 (Warranty Claims; Product Liability Claims), 8.6 (Insurance), 8.7 (Release), 13.2 (Confidential Nature of Information), 13.6 (Access to Records After Closing), and 13.13 (Enforcement of Agreement), as to which no time limitation shall apply;

(ii) the representations and warranties set forth in Sections 5.7 (Taxes) and 5.20 (Environmental Matters) and the covenants set forth in Section 11.1(a)(v) and Section 11.1(a)(vi) for a period equal to the applicable statute of limitations plus ninety (90) days;

(iii) the covenant set forth in Section 8.1, as to which the indemnification provided for in this Section 11.1 shall terminate ninety (90) days after the expiration of the five year Post-Closing noncompetition period provided for therein;

(iv) the covenant set forth in Section 11.1(a)(i), as to which no time limitation shall apply; and

(v) any Loss or Expense of which any Buyer Group Member has notified Sellers in accordance with the requirements of Section 11.3 on or prior to the date such indemnification would otherwise terminate in accordance with this Section 11.1, as to which the obligation of Sellers and Equityholders shall continue until the liability of Sellers and Equityholders shall have been determined pursuant to this Article XI, and Sellers and Equityholders shall have reimbursed all Buyer Group Members for the full amount of such Loss and Expense in accordance with this Article XI.

11.2. Indemnification by Buyer.

(a) Buyer agrees to indemnify and hold harmless each Seller Group Member from and against any and all Losses and Expenses incurred by such Seller Group Member (whether or not such Losses and Expenses involve a Third Person Claim (as defined below)) in connection with or arising from:

(i) any breach of any warranty or the inaccuracy of any representation of Buyer contained or referred to in this Agreement or any inaccuracy in any certificate delivered by or on behalf of Buyer pursuant hereto; or

(ii) any breach by Buyer of any of its covenants or agreements, or any failure by Buyer to perform any of its obligations expressly set forth in this Agreement including without limitation Buyer's obligations with respect to (1) Assumed Liabilities, (2) any Contract assumed by Buyer, (3) Buyer's obligations to make Additional Payments to Sellers arising out of the sale of ITEG Products; and (4) Sections 8.3 (Employee and Employee Benefit Plans) and 8.5 (Warranty Claims; Product Liability Claims), respectively.

(b) The indemnification provided for in Section 11.2(a) shall terminate eighteen (18) months after the Closing Date (and no claims shall be made by Sellers under Section 11.2(a) thereafter), except that the indemnification by Buyer shall continue as to:

(i) the obligations of Buyer with respect to Assumed Liabilities and under the Instrument of Assumption, as to which no time limitation shall apply;

(ii) the covenants of Buyer set forth in Sections 3.5, 8.2, 8.5, 13.2, 13.6 and 13.13, as to all of which no time limitation shall apply; and

(iii) Buyer's agreements set forth in Section 3.5, which shall survive in accordance with its terms;

(iv) any Loss or Expense of which Sellers have notified Buyer in accordance with the requirements of Section 11.3 on or prior to the date such indemnification would otherwise terminate in accordance with this Section 11.2, as to which the obligation of Buyer shall continue until the liability of Buyer shall have been determined pursuant to this Article XI, and Buyer shall have reimbursed all Seller Group Members for the full amount of such Loss and Expense in accordance with this Article XI.

(c) If and to the extent that Buyer is entitled to indemnification of Losses or Expenses incurred by it from Sellers or Equityholders, Buyer first shall seek to recover such amounts from the Indemnification Escrow, and only after all amounts therein have been exhausted may Buyer seek recovery of Losses or Expenses directly from Sellers or Equityholders.

11.3. Notice of Claims.

(a) Any Buyer Group Member or Seller Group Member (the “Indemnified Party”) seeking indemnification hereunder shall give to the party obligated to provide indemnification to such Indemnified Party (the “Indemnitor”) a notice (a “Claim Notice”) describing in reasonable detail the facts giving rise to any claim for indemnification hereunder and shall include in such Claim Notice (if then known) the amount or the method of computation of the amount of such claim, and a reference to the provision of this Agreement or any other agreement, document or instrument executed hereunder or in connection herewith upon which such claim is based; provided, that a Claim Notice in respect of any pending or threatened action at law or suit in equity by or against a third Person as to which indemnification will be sought (each such action or suit being a “Third Person Claim”) shall be given promptly after the action or suit is commenced; provided further that failure to give such notice shall not relieve the Indemnitor of its obligations hereunder except to the extent it shall have been prejudiced by such failure. For purposes of this Section 11.3(a) and Section 11.4, the term “Third Person Claim” shall include any action or suit threatened or brought by a Seller Group Member against a third Person or threatened or brought by a third Person against a Seller Group Member (whether or not brought or threatened to be brought against a Buyer Group Member) relating to or arising out of (i) those matters set forth on Schedule 11.1(A)(v) or (ii) an Excluded Liability, and which, in each case, has or could reasonably be expected to have, in any material respect, a continuing effect on the Business. With respect to such actions or suits, for purposes of this Section 11.3(a) and Section 11.4, (x) Sellers and Equityholders shall be deemed to be the “Indemnitor” and Buyer shall be deemed to be the “Indemnified Party” and (y) Sellers and Equityholders shall provide notice to Buyer or any such matters.

(b) After the giving of any Claim Notice pursuant hereto, the amount of indemnification to which an Indemnified Party shall be entitled under this Article XI shall be determined: (i) by the written agreement between the Indemnified Party and the Indemnitor; (ii) by a final judgment or decree of any court of competent jurisdiction; or (iii) by any other means to which the Indemnified Party and the Indemnitor shall agree. The judgment or decree of a court shall be deemed final when the time for appeal, if any, shall have expired and no appeal shall have been taken or when all appeals taken shall have been finally determined.

11.4. Third Person Claims.

(a) Subject to Section 11.4(b), the Indemnified Party shall have the right to conduct and control, through counsel of its choosing, the defense, compromise or settlement of any Third Person Claim as to which indemnification will be sought by any Indemnified Party from any Indemnitor hereunder, and in any such case the Indemnitor shall cooperate in connection therewith and shall furnish such records, information and testimony and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested by the Indemnified Party in connection therewith; provided, that:

(i) the Indemnitor may participate, through counsel chosen by it and at its own expense, in the defense of any such Third Person Claim as to which the Indemnified Party has so elected to conduct and control the defense thereof; and

(ii) the Indemnified Party shall not, without the written consent of the Indemnitor (which written consent shall not be unreasonably withheld), pay, compromise or settle any such Third Person Claim, except that no such consent shall be required if, following a written request from the Indemnified Party, the Indemnitor shall fail, within 14 days after the making of such request, to acknowledge and agree in writing that, if such Third Person Claim shall be adversely determined, such Indemnitor has an obligation to provide indemnification hereunder to such Indemnified Party.

Notwithstanding the foregoing, the Indemnified Party shall have the right to pay, settle or compromise any such Third Person Claim without such consent, provided, that in such event the Indemnified Party shall waive any right to indemnity therefor hereunder unless such consent is unreasonably withheld.

(b) If any Third Person Claim (i) is solely for money damages (and where Sellers are the Indemnitor, the potential liability of Sellers and Equityholders exceeds the potential liability of Buyer thereunder), and (ii) where Sellers are the Indemnitor, will have no continuing effect in any material respect on the Business or the Purchased Assets, then the Indemnitor shall have the right to conduct and control, through counsel of its choosing, the defense, compromise or settlement of any such Third Person Claim against such Indemnified Party as to which indemnification will be sought by any Indemnified Party from any Indemnitor hereunder if the Indemnitor has acknowledged and agreed in writing that, if the same is adversely determined, the Indemnitor has an obligation to provide indemnification to the Indemnified Party in respect thereof, and in any such case the Indemnified Party shall cooperate in connection therewith and shall furnish such records, information and testimony and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested by the Indemnitor in connection therewith; provided, that the Indemnified Party may participate, through counsel chosen by it, in the defense of any such Third Person Claim as to which the Indemnitor has so elected to conduct and control the defense thereof, the expenses of which participation shall, unless there is a conflict of interest between the Indemnitor and the Indemnified Party, be payable by the Indemnified Party. Notwithstanding the foregoing, the Indemnified Party shall have the right to pay, settle or compromise any such Third Person Claim, provided, that in such event the Indemnified Party shall waive any right to indemnity therefor hereunder unless the Indemnified Party shall have sought the consent of the Indemnitor to such payment, settlement or compromise and such consent was unreasonably withheld, in which event no claim for indemnity therefor hereunder shall be waived. The Indemnitor shall not, without the written consent of the Indemnified Party (which written consent shall not be unreasonably withheld), pay, compromise or settle any Third Person Claim.

(c) Assignment; Reimbursement. If any of the Losses or Expenses for which an Indemnitor is responsible under this Article XI are recoverable or reasonably likely to be recoverable against any third party at the time that payment is made to an Indemnified Party hereunder, then the Indemnified Party shall assign any and all rights that it may have to recover such Losses and Expenses from such third party to the Indemnitor or, if such rights are not assignable for any reason, the Indemnified Party shall take commercially reasonable actions to collect any and all such Losses and Expenses in account thereof from such third party for the benefit of the Indemnitor; provided, however, that where the Buyer is the Indemnified Party, Buyer shall have no obligation to assign its rights to the Indemnitor or attempt to collect any amounts from the third party if the third party has a continuing relationship with the Business. Such Indemnified Party shall reimburse the Indemnitor for any and all Losses and Expenses (less any reasonable costs and expenses and any premiums or taxes incurred by the Indemnified Party or its Affiliates in connection with the pursuit or recovery of such amounts, including any future increase in insurance premiums, retroactive premiums, costs associated with any loss of insurance and replacement thereof or self-insured component of such insurance coverage) paid by the Indemnitor to the Indemnified Party pursuant to this subsection to the extent such amount is subsequently paid to the Indemnified Party by any Person other than the Indemnitor. The Indemnitor shall indemnify and hold harmless the Indemnified Party in respect of any Losses and Expenses incurred by such Indemnified Party in connection with its assignment of rights to the Indemnitor and/or any actions taken by it pursuant to this subsection.

11.5. Setoff. At and after such time as the entirety of the Indemnity Escrow Amount deposited with the Escrow Agent shall have been (i) distributed to Sellers or Buyer pursuant to the terms of the Escrow Agreement and/or (ii) subject to an asserted claim by any Buyer Group Member or Seller Group Member, Buyer shall have the right to withhold and deduct from any amount otherwise payable by any Buyer Group Member under this Agreement any amounts owed to any Buyer Group Member under this Article XI in respect of (x) any final and non-appealable order of a court of competent jurisdiction and (y) amounts acknowledged in writing by a Seller Group Member to be due and owing to a Buyer Group Member.

11.6. Sole Remedy. Following the Closing, the sole remedy of the Buyer, Sellers and Equityholders for any and all claims with respect to any breach of this Agreement (except in the case of fraud, intentional misrepresentation or willful misconduct and except for any injunctive relief to which a party may be entitled) shall be the indemnity set forth in this Article XI, and (except in the case of fraud, intentional misrepresentation or willful misconduct and except for any injunctive relief to which a party may be entitled) neither the Buyer, Sellers nor Equityholders will have any other entitlement, remedy or recourse, whether in contract, tort or otherwise, against the other parties with respect to any breach of this Agreement, all of such remedies, entitlements and recourse being expressly waived by the parties hereto the fullest extent permitted by Requirements of Laws.

11.7. No Duplication of Warranties. Notwithstanding anything to the contrary herein, (a) the Buyer Group Members may not assert multiple claims under Section 11.1 above, in order to recover duplicative Losses in respect of a single set of facts or circumstances under more than one representation or warranty in this Agreement whether such facts or circumstances would give rise to a breach of more than one representation or warranty in this Agreement, and (b) the Buyer Group Members may not assert any claim under Section 11.1 above, for any item of Losses in the event and to the extent the Buyer has already received recovery of such item as a result of an adjustment of the Purchase Price pursuant to Section 3.3 or to the extent the Buyer received credit for a reserve for such item in the final Valuation Date Working Capital Statement.

11.8. Mitigation. Each party to this Agreement hereby agrees that it will use commercially reasonable efforts to mitigate its Losses and Expenses upon becoming aware of any claim that may be subject to the provisions of this Article XI.

11.9. Business Insurance Policies. In calculating any Loss or Expense there shall be deducted any insurance recovery in respect thereof pursuant to Business Insurance Policies (and no right of subrogation shall accrue hereunder to any insurer). If and to the extent that the Tail Policy will, or is reasonably likely to, provide a defense and/or indemnity in respect of any Loss or Expense, Sellers and Equityholders, on the one hand, and Buyer, on the other hand, shall (and shall cause each Seller Group Member and each Buyer Group Member to) use their commercially reasonable efforts to recover such Tail Policy proceeds, and each of them further covenants and agrees to cooperate with the other to do so.

11.10. Adjustment to Purchase Price. Any payment by Buyer or Sellers under this Article XI shall, to the extent such payment can be properly so characterized under applicable Tax law, be treated by the parties as an adjustment to the Purchase Price. If such treatment later is disallowed in any administrative or court proceedings, the Indemnitor shall reimburse the Indemnified Party for the net Tax effects of such disallowance. The obligations under this Section 11.10 shall remain in effect without limitation as to time.

11.11. Lay-Mor Litigation. Anything to the contrary in this Section 11 notwithstanding, the Buyer and the Sellers agree that, with regard to the Lay-Mor litigation described on Schedule 5.19, and any derivative litigation thereof with Mobile Products Inc. (the "Lay-Mor Litigation"):

(a) Sellers shall have the exclusive right to conduct and control, through counsel of its choosing, the defense, compromise or settlement of the Lay-Mor Litigation, and in any such case the Buyer shall cooperate in connection therewith; provided, that the Sellers shall not, without the consent of the Buyer (which consent shall not be unreasonably withheld, conditioned or delayed), pay, compromise or settle the Lay-Mor Litigation. Buyer may participate, through counsel chosen by it, in the defense of the Lay-Mor Litigation, the reasonable Expenses of which counsel shall be paid by Sellers. Buyer recognizes that settlement of the Lay-Mor Litigation may require agreement on the part of Buyer to modifications to the design of the product that is the subject matter of the litigation. Buyer agrees to evaluate any such possible modifications in good faith and agrees to make reasonable modifications to the design of the product that is the subject matter of the Lay-Mor Litigation that would not in the reasonable judgment of Buyer adversely impact the cost or salability of the product, to the extent that such modifications are necessary in accomplishing a resolution of the litigation; provided, that any Expense of such modification shall be borne by Sellers. If requested by Sellers, and at Sellers' Expense, Buyer agrees to make the proposed modifications to the product shown in Schedule 11.11; provided, that any Expense of such modification shall be borne by Sellers. For purposes of this Section 11.11, "Expenses" shall include any internally allocated costs associated with the Lay-Mor Litigation, including an allocable share of engineering and design costs.

(b) Buyer's right of indemnification pursuant to this Section 11 with respect to the Lay-Mor Litigation shall include Buyer's Expenses and Losses related to or arising out of the Lay-Mor Litigation, without regard to the Deductible set forth in Section 11.1(a)(A) and the limitation set forth in Section 11.1(a)(B); provided, however, that Buyer's indemnifiable Losses and Expenses pursuant to this Section 11.11 shall specifically exclude all loss of profit, revenue or business opportunity from the sale of the product that is the subject of the Lay-Mor Litigation, regardless of whether such Losses are reasonably foreseeable or not.

(c) Buyer shall cooperate in connection with Sellers' defense of the Lay-Mor Litigation, including, but not limited to, by furnishing originals or copies of such records, materials, and information, by making available employees for consultation and testimony, and by attending such conferences, discovery proceedings, hearings, trials and appeals, as may be reasonably requested by Sellers in connection therewith (with any Expenses of Buyer being reimbursed by Sellers).

ARTICLE XII

TERMINATION

12.1. Termination. Anything contained in this Agreement to the contrary notwithstanding, this Agreement may be terminated at any time prior to the Closing Date:

(a) by the mutual consent of Buyer and the Sellers' Representative;

(b) by Buyer or Sellers if the Closing shall not have occurred on or before October 31, 2011 (or such later date as may be mutually agreed to by Buyer and Sellers);

(c) by Buyer in the event of any material breach by Sellers or Equityholders of any of Sellers' or Equityholders' agreements, representations or warranties contained herein and the failure of Sellers or Equityholders to cure such breach within fifteen days after receipt of notice from Buyer requesting such breach to be cured; or

(d) by Sellers in the event of any material breach by Buyer of any of Buyer's agreements, representations or warranties contained herein and the failure of Buyer to cure such breach within fifteen days after receipt of notice from Sellers requesting such breach to be cured.

12.2. Notice of Termination. Any party desiring to terminate this Agreement pursuant to Section 12.1 shall give notice of such termination to the other party to this Agreement.

12.3. Effect of Termination. If this Agreement is terminated pursuant to this Article XII, all further obligations of the parties under this Agreement (other than Sections 13.2 , 13.3 and 13.11) shall be terminated without further liability of any party to the other, provided that nothing herein shall relieve any party from liability for its willful breach of this Agreement.

ARTICLE XIII

GENERAL PROVISIONS

13.1. Survival of Obligations. All representations, warranties, covenants and obligations contained in this Agreement shall survive the consummation of the transactions contemplated by this Agreement; provided, however, that, except as otherwise provided in Article XI, the representations and warranties contained in Articles V and VI shall terminate on the eighteen (18) month anniversary of the Closing Date. Except as otherwise provided herein, no claim shall be made for the breach of any representation or warranty contained in Article V or VI or under any certificate delivered with respect thereto under this Agreement after the date on which such representations and warranties terminate as set forth in this Section.

13.2. Confidential Nature of Information. Each party agrees that it will treat in confidence all documents, materials and other information which it shall have obtained regarding the other party during the course of the negotiations leading to the consummation of the transactions contemplated hereby (whether obtained before or after the date of this Agreement), the investigation provided for herein and the preparation of this Agreement and other related documents, and, if the transactions contemplated hereby are not consummated, each party will return to the other party all copies of nonpublic documents and materials which have been furnished in connection therewith. Such documents, materials and information shall not be communicated to any third Person (other than, in the case of Buyer, to its counsel, accountants, financial advisors or lenders, and in the case of Sellers, to their counsel, accountants or financial advisors). No other party shall use any confidential information in any manner whatsoever except solely for the purpose of evaluating the proposed purchase and sale of the Purchased Assets; provided, however, that after the Closing Buyer may use or disclose any confidential information included in the Purchased Assets or otherwise reasonably related to the Business or the Purchased Assets. The obligation of each party to treat such documents, materials and other information in confidence shall not apply to any information which (i) is or becomes available to such party from a source other than the other party, (ii) is or becomes available to the public other than as a result of disclosure by such party or its agents, (iii) is required to be disclosed under applicable law or judicial process, but only to the extent it must be disclosed, or (iv) such party reasonably deems necessary to disclose to obtain any of the consents or approvals contemplated hereby.

13.3. No Public Announcement. Neither Buyer nor Sellers shall, without the approval of the other, make any press release or other public announcement concerning the transactions contemplated by this Agreement, except as and to the extent that any such party shall be so obligated by law or the rules of any stock exchange, in which case the other party shall be advised and, to the extent practicable, be consulted concerning a mutually agreeable release or announcement; provided, that the foregoing shall not preclude communications or disclosures necessary to implement the provisions of this Agreement or to comply with the accounting and Securities and Exchange Commission disclosure obligations.

13.4. Notices. All notices or other communications required or permitted hereunder shall be in writing and shall be deemed given (a) when delivered personally, (b) if transmitted by facsimile upon confirmation that such facsimile transmission has been received or (c) one business day following the day sent when sent by registered or certified mail or by overnight courier that obtains a receipt, in each case at the following addresses and facsimile numbers:

If to Buyer, to:

Magnum Power Products, LLC
c/o Generac Power Systems, Inc.
S45 W29290 Highway 59
Waukesha, Wisconsin 53189
Attention: Aaron Jagdfeld
Facsimile: (262) 968-3374

With a required copy to:

Sidley Austin LLP
One South Dearborn Street
Chicago, Illinois 60603
Attention: Gary D. Gerstman
Facsimile: (312) 853-7036

If to any Seller or Equityholder to:

Thomas Joseph
Sellers' Representative
4490 Harbor Village Drive
Omro, Wisconsin 54963
Facsimile: (920) 361-2214

With a required copy to:

Godfrey & Kahn, S.C.
333 Main Street, Suite 600
P.O. Box 13067
Green Bay, Wisconsin 54307-3067
Attention: Timothy J. McCoy
Facsimile: (920) 436-7988
Email: tmccoy@gklaw.com

or to such other address as such party may indicate by a notice delivered to the other party hereto.

13.5. Successors and Assigns.

(a) The rights of any party under this Agreement shall not be assignable by such party hereto prior to the Closing without the written consent of the other parties, except that the rights of Buyer hereunder may be assigned prior to the Closing, without the consent of Sellers or Equityholders, to an Affiliate of Buyer; provided, that, any such permitted assignment shall not relieve any assignor of its obligations hereunder. Following the Closing, either party may assign any of its rights hereunder, but no such assignment shall relieve it of its obligations hereunder.

(b) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns. The successors and permitted assigns hereunder shall include, in the case of Buyer, any permitted assignee as well as the successors in interest to such permitted assignee (whether by merger, liquidation (including successive mergers or liquidations) or otherwise). Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon any Person other than the parties and successors and assigns permitted by this Section 13.5 any right, remedy or claim under or by reason of this Agreement.

13.6. Access to Records after Closing.

(a) For a period of six years after the Closing Date, Sellers and their representatives shall have reasonable access to all of the books and records of Sellers with respect to the Business transferred to Buyer hereunder to the extent that such access may reasonably be required by Sellers in connection with matters relating to or affected by the operations of the Business prior to the Closing Date. Such access shall be afforded by Buyer upon receipt of reasonable advance notice and during normal business hours. Sellers shall be solely responsible for any costs or expenses incurred by it pursuant to this Section 13.6. If Buyer shall desire to dispose of any of such books and records prior to the expiration of such six-year period, Buyer shall, prior to such disposition, give Sellers a reasonable opportunity, at Sellers' expense, to segregate and remove such books and records as Sellers may select.

(b) For a period of six years after the Closing Date, Buyer and its representatives shall have reasonable access to all of the books and records relating to the Business which Sellers or any of their respective Affiliates may retain after the Closing Date. Such access shall be afforded by Sellers and their respective Affiliates upon receipt of reasonable advance notice and during normal business hours. Buyer shall be solely responsible for any costs and expenses incurred by it pursuant to this Section 13.6. If Sellers or any of their respective Affiliates shall desire to dispose of any of such books and records prior to the expiration of such six-year period, Sellers shall, prior to such disposition, give Buyer a reasonable opportunity, at Buyer's expense, to segregate and remove such books and records as Buyer may select.

13.7. Sellers' Representative.

(a) Each Seller and each Equityholder shall irrevocably constitute and appoint Thomas Joseph as "Sellers' Representative" to act as such Seller's or Equityholder's true and lawful attorney-in-fact and agent and authorize Sellers' Representative, acting for such Seller or Equityholder and in such Seller's or Equityholder's name, place and stead, in any and all capacities, to do and perform every act and thing required or permitted to be done with respect to all matters arising under this Agreement, the Escrow Agreement and any other Seller Ancillary Agreement. Sellers' Representative shall be so appointed by Sellers and the Equityholders pursuant to a Sellers' Representative Agreement substantially in the form of attached Exhibit F (the "Sellers' Representative Agreement").

13.8. Entire Agreement; Amendments. This Agreement and the Exhibits and Schedules referred to herein and the documents delivered pursuant hereto contain the entire understanding of the parties hereto with regard to the subject matter contained herein or therein, and supersede all prior agreements, understandings or letters of intent between or among any of the parties hereto, including the Confidentiality Agreement and the Letter of Intent. This Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the parties hereto.

13.9. Partial Invalidity. Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provisions hereof, unless such a construction would be unreasonable.

13.10. Waivers. Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to any party, it is authorized in writing by an authorized representative of such party. The failure of any party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

13.11. Expenses. Except for (i) the filing fee under the HSR Act, which shall be paid by Buyer and (ii) the cost of the commitments for the Title Policy and Survey described in Section 7.6 and the cost of the Title Policy described in Section 9.7, which shall be paid by Sellers, each party hereto will pay all costs and expenses incident to its negotiation and preparation of this Agreement and to its performance and compliance with all agreements and conditions contained herein on its part to be performed or complied with, including the fees, expenses and disbursements of its counsel and accountants.

13.12. Execution in Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement, and shall become binding when one or more counterparts have been signed by each of the parties hereto and delivered to Sellers and Buyer. Delivery of an executed counterpart of a signature page to this Agreement shall be as effective as delivery of a manually executed counterpart of this Agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission or e-mail shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile or e-mail shall be deemed to be their original signatures for all purposes.

13.13. Enforcement of Agreement. In the event of an action at law or in equity between the parties hereto to enforce any of the provisions hereof, the unsuccessful party to such litigation or proceeding shall pay to the successful party all costs and expenses, including reasonable attorneys' fees, incurred therein by such successful party on trial and appeal as adjudged by the court, and if such successful party or parties shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees may be included as part of such judgment.

13.14. Further Assurances. From time to time following the Closing, Sellers shall execute and deliver, or cause to be executed and delivered, to Buyer such other instruments of conveyance and transfer as Buyer may reasonably request or as may be otherwise necessary to more effectively convey and transfer to, and vest in, Buyer and put Buyer in possession of, any part of the Purchased Assets, and, in the case of licenses, certificates, approvals, authorizations and agreements, contracts, leases, easements and other commitments included in the Purchased Assets (a) which cannot be transferred or assigned effectively without the consent of third parties which consent has not been obtained prior to the Closing, to cooperate with Buyer at its request in endeavoring to obtain such consent promptly, and if any such consent is unobtainable, to use its reasonable best efforts to secure to Buyer the benefits thereof in some other manner, including by means of subcontract or other lawful arrangement, or (b) which are otherwise not transferable or assignable, to use its reasonable best efforts jointly with Buyer to secure to Buyer the benefits thereof in some other manner (including the exercise of the rights of Sellers thereunder), including by means of subcontract or other lawful arrangement; provided, however, that nothing herein shall relieve Sellers of their respective obligations under Section 7.3. Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any license, certificate, approval, authorization or agreement, contract, lease, easement or other commitment included in the Purchased Assets if an attempted assignment thereof without the consent of a third party thereto would constitute a breach thereof. Without limiting the foregoing, each Seller covenants and agrees that it shall maintain and preserve its legal existence for a period of eighteen (18) months from the Closing Date.

13.15. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Wisconsin, except for any such laws that would require the application of the laws of any other jurisdiction.

13.16. Time is of the Essence. With respect to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

13.17. Submission to Jurisdiction; Waiver of Jury Trial. The parties hereby irrevocably submit in any suit, action or proceeding arising out of or related to this Agreement or any of the transactions contemplated hereby or thereby to the jurisdiction of the United States District Court for the Eastern District of Wisconsin, Milwaukee Division and the jurisdiction of any court of the State of Wisconsin located in Milwaukee County and waive any and all objections to jurisdiction that they may have under the laws of the State of Wisconsin or the United States. EACH OF THE PARTIES KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY REQUIREMENTS LAWS, ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT.

[Signature page(s) follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

Buyer:

MAGNUM POWER PRODUCTS, LLC

By: /s/ York A. Ragen

Name: York A. Ragen

Title: Secretary and Treasurer

Sellers:

MAGNUM PRODUCTS, LLC

By: /s/ Thomas J. Joseph

Name: Thomas J. Joseph

Title: Manager

CH&E PUMPS ACQUISITION, LLC

By: Magnum Products, LLC

Its: Sole Member

By: /s/ Thomas J. Joseph

Name: Thomas J. Joseph

Title: Manager

MAGNUM PRODUCTS INTERNATIONAL, INC.

By: /s/ Thomas J. Joseph

Name: Thomas J. Joseph

Title: President

MAGNUM PRODUCTS SERVICES, LLC

By: /s/ Thomas J. Joseph

Name: Thomas J. Joseph

Title: Manager

Signature Page to Asset Purchase Agreement

MAGNUM PRODUCTS CANADA, INC.

By: /s/ Thomas J. Joseph

Name: Thomas J. Joseph

Title: President

JOSEPH PROPERTIES, LLC

By: /s/ Thomas J. Joseph

Name: Thomas J. Joseph

Title: Sole Member

Equityholders:

TOM JOSEPH, INC.

By: /s/ Thomas J. Joseph

Name: Thomas J. Joseph

Title: Manager

MIKE JOSEPH, INC.

By: /s/ Michael Joseph

Name: Michael Joseph

Title: President

Thomas Joseph, individually

/s/ Thomas J. Joseph

Michael Joseph, individually

/s/ Michael Joseph

Signature Page to Asset Purchase Agreement

THOMAS J. JOSEPH 2010 IRREVOCABLE

TRUST (u/a/d December 27, 2010)

By: /s/ Keith Pohlnow
Keith Pohlnow, Trustee

Sellers' Representative:

Thomas Joseph, individually

/s/ Thomas J. Joseph

Signature Page to Asset Purchase Agreement

[Exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The exhibits and schedules will be provided to the SEC upon request.]

EXHIBITS

EXHIBIT	DESCRIPTION
A	Instrument of Assignment
B	Instrument of Assumption
C	Escrow Agreement
D1	Opinion Letter of Counsel to Seller
D2	Opinion Letter of Counsel to Buyer
E	Consulting Agreement (Michael Joseph)
F	Sellers' Representative Agreement
G	Closing Date Retention Plan
H	Subcontract Agreement
I	Employee Disclosure and Noncompete Agreement

LIST OF SCHEDULES

SCHEDULE	DESCRIPTION
1.1(A)	Closing Date Retention Plan Participants
1.1(B)	Management Bonuses
1.1(C)	Sellers' Knowledge Group
1.1(D)	Transaction Bonuses
1.1(E)	UAR Plan Participants
1.1(F)	Years-of-Service Bonuses
1.2	Line Items Included in Computation of Valuation Date Working Capital
2.2	Excluded Assets
3.5	ITEG Products and Customers of ITEG Products
3.6	Purchase Price Allocation
5.1(A)	Organization and Foreign Qualification of Sellers
5.1(D)	Ownership of Sellers
5.1(E)	Joseph Properties and Magnum Products Services
5.2(A)	Subsidiaries
5.2(B)	Ownership of Subsidiaries
5.2(C)	Organization and Foreign Qualification of Subsidiaries
5.3(B)	Conflicts and Consents
5.4(A)	Financial Statements
5.5(B)	Operations Since Balance Sheet Date
5.6	No Undisclosed Liabilities
5.7(A)	Taxes
5.7(B)	Payments, Other Benefits, and Acceleration of Vesting
5.8	Availability of Assets
5.9	Governmental Permits
5.10(A)	Survey; Owned Real Property
5.10(B)	Leased Real Property
5.11(A)	Owned Personal Property
5.11(B)	Leased Personal Property
5.12(A)	Owned or Licensed Copyrights, Patent Rights and Trademarks
5.12(B)	Owned or Licensed Software
5.12(C)	Licensed Copyrights, Patent Rights and Trademarks; Trade Secrets; Software
5.12(D)	Exceptions to Ownership or Right to Use Intellectual Property and Software
5.12(E)	Registrations and Validity of Copyrights, Patent Rights and Trademarks
5.12(F)	Infringement
5.12(G)	Software
5.12(H)	Operational Limitations of Intellectual Property and Software
5.12(I)	Creation and Assignment of Intellectual Property

5.12(J)	Preservation of Intellectual Property
5.13	Inventory
5.14	Title to Property
5.15(A)	Sellers' Non-ERISA Plans
5.15(B)	Sellers' Compensation Commitments
5.15(D)	Sellers' ERISA Plans
5.15(G)	Compliance With Law
5.15(L)	Employees
5.15(M)	Conflicts of Interest
5.16	Employee Relations
5.17	Contracts
5.18(A)	Status of Seller Agreements
5.18(B)	Government Contracting Matters
5.19	Compliance with Law; Litigation
5.20	Environmental Matters
5.21	Insurance
5.22	Customers and Suppliers
5.23	Budgets
5.24(A)	Warranties; Product Defects
5.24(B)	Product Recalls
8.3	Offered Employees
9.5	Necessary Consents
9.6	Sellers' Customer Relationships
11.1(A)(v)	Additional Matters
11.11	Product Configuration Subject to Lay-Mor Litigation

LISTING OF SUBSIDIARIES OF GENERAC HOLDINGS INC.

**Generac Holdings Inc.
Subsidiaries (all 100% owned)**

Subsidiaries of the Registrant

Generac Acquisition Corp.
Generac Power Systems, Inc.
Pro Power Solutions, LLC
Magnum Power Products, LLC

State or Other Jurisdiction of Incorporation

Delaware, U.S.
Wisconsin, U.S.
Georgia, U.S.
Wisconsin, U.S.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-164851) pertaining to the 2010 Equity Incentive Plan of Generac Holdings Inc. of our reports dated March 9, 2012, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting of Generac Holdings Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin
March 9, 2012

**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 annual report on Form 10-K 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: March 9, 2012

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld
Title: Chief Executive Officer

**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 annual report on Form 10-K 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: March 9, 2012

/s/ York A. Ragen

Name: York A. Ragen
Title: Chief Financial Officer

**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 annual report on Form 10-K for the fiscal year ended December 31, 2011 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 annual report on Form 10-K for the fiscal year ended December 31, 2011 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2012

/s/ Aaron Jagdfeld

Name: Aaron Jagdfeld
Title: *Chief Executive Officer*

**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 annual report on Form 10-K for the fiscal year ended December 31, 2011 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 annual report on Form 10-K for the fiscal year ended December 31, 2011 fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2012

/s/ York A. Ragen

Name: York A. Ragen
Title: Chief Financial Officer

