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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Generator Co. Brass Accused Of Lying About Finances

By **Jonathan Romeo**

Law360 (February 12, 2024, 9:03 PM EST) -- Top executives and board members of Generac, a power generation equipment manufacturer, were hit with a shareholder derivative lawsuit filed in Delaware federal court on Monday, accusing them of lying about the company's financial outlook and the reliability of its products.

The lawsuit, initiated by plaintiff Joe Chan on behalf of the company, said Generac Holdings Inc.'s leadership failed to disclose decreasing demand for its generators post-COVID-19. It also hid a major defect in its solar product line that led to residential fires and an overreliance on a single distributor, which ceased operations, the complaint said.

"The individual defendants breached their highest obligations of good faith, candor, loyalty, and due care to Generac and its stockholders, allowing the dissemination of materially false and misleading statements about the company's business prospects," the lawsuit said.

According to the complaint, on Feb. 16, 2022, Generac announced its 2021 earnings, revealing a 50% increase in sales to \$3.75 billion for the year. The announcement included a statement from CEO Aaron Jagdfeld, highlighting strong demand and record shipments in the last quarter of 2021. Jagdfeld expressed optimism for 2022 due to continued high demand for home standby generators, a growing energy technology product line, and strong worldwide demand for commercial and industrial products.

However, the complaint said as more information came out about the company's real situation and product issues, Generac's stock price dropped from \$506 per share to \$106 per share between November 2021 and November 2022.

"Generac's leadership was aware of, but did not disclose, significant negative trends in its core businesses, exposing the company and its shareholders to unprecedented risk," the lawsuit said.

Of particular concern was the SnapRS component of Generac's solar power systems, which was found to have a dangerous defect causing it to overheat, melt and, in some cases, start fires, according to the lawsuit. Despite growing complaints and service calls warning of the issue, Generac allegedly continued to highlight the safety and increasing sales of its products without adequately addressing the defect.

The lawsuit said Generac reported an estimated \$155 million in lost revenue from the defective SnapRS, and "hundreds of millions" in reputation and brand damage caused by the defect.

The complaint further accused Generac of breaching its fiduciary duties by failing to address and correct obvious deficiencies in the company's internal controls and practices. This alleged misconduct not only led to financial losses for the company but also damaged its corporate image and goodwill, the lawsuit said.

The actions of Generac leadership have not only led to financial losses for investors, the lawsuit said, but also caused significant damages to Generac, including defense costs in the securities action and reputational harm. The company is exposed to potential class-wide damages due to these violations.

Chan has asked the court to order payment to the company for the money it lost because of the actions of the defendants. He is also requesting the court to require Generac to make big changes in how the company is run, including better oversight by the board, improved financial reporting, more

input from shareholders and better internal checks to fix issues and avoid future problems.

The lawsuit is also seeking extra damages to punish the defendants and to warn others against doing similar things in the future.

"This lawsuit seeks not just financial restitution but comprehensive reforms in Generac's corporate governance and internal controls to prevent future misconduct and to safeguard the interests of the company and its shareholders," Chan said.

An attorney for Chan declined to comment.

A representative for Generac didn't immediately respond to a request for comment late Monday.

The plaintiff is represented by Seth D. Rigrotsky, Gina M. Serra, and Herbert W. Mondros of Rigrotsky Law, PA. and Joshua H. Grabar of Grabar Law Office.

Counsel information for Generac was not immediately available Monday.

The case is Joe Chan v. Aaron Jagdfeld, et al., case number 1:24-cv-00182, in the U.S. District Court for the District of Delaware.

--Editing by Alex Hubbard.

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