Goodman Global Inc
Form 10-Q
May 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from ______ to ______

Commission File No. 1-32850

GOODMAN GLOBAL, INC.

(Exact name of registrant as specified in our charter)

Delaware	**20-1932219**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
5151 San Felipe, Suite 500	
Houston, Texas	**77056**
(Address of principal executive offices)	**(Zip Code)**

713-861-2500

(Registrant s telephone number, including area code)

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 x Although Goodman Global, Inc. is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act, the company has filed all Securities Exchange Act reports for the preceding 12 months.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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	x	Smaller reporting company	¨

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

As of May 1, 2010, there were ten (10) shares outstanding of Goodman Global, Inc. s common stock, par value $0.01 per share.

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GOODMAN GLOBAL, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2010

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Part I. Financial Information

Item 1. Financial Statements

GOODMAN GLOBAL, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	March 31, 2010 (unaudited)	December 31, 2009
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 53,535	$ 39,679
Restricted cash	2,700	2,700
Accounts receivable, net of allowance for doubtful accounts ($3.4 million at March 31, 2010 and $4.4 million at December 31, 2009)	199,914	207,870
Inventories	291,366	294,651
Deferred tax assets	10,918	13,326
Other current assets	41,355	33,956
Total current assets	599,788	592,182
Property, plant, and equipment, net	166,671	169,906
Goodwill	1,399,536	1,399,536
Identifiable intangibles	777,213	782,223
Deferred financing costs	25,757	27,968
Other assets	6,613	7,708
Total assets	$ 2,975,578	$ 2,979,523
Liabilities and shareholders equity		
Current liabilities:		
Trade accounts payable	$ 104,930	$ 95,038
Accrued warranty expenses	36,296	37,233
Other accrued expenses	90,596	124,283
Total current liabilities	231,822	256,554
Long-term debt	1,162,388	1,160,790
Deferred tax liabilities	155,271	155,216
Other long-term liabilities	95,332	91,445
Common stock, par value of $.01, 1,000 shares authorized, 10 shares issued and outstanding as of March 31, 2010 and as of December 31, 2009		
Accumulated other comprehensive income	11,183	8,230
Additional paid-in capital	1,295,512	1,294,214
Retained earnings	24,070	13,074
Total shareholders equity	1,330,765	1,315,518
Total liabilities and shareholders equity	$ 2,975,578	$ 2,979,523

The accompanying notes are an integral part of the consolidated condensed financial statements.

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GOODMAN GLOBAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(unaudited, in thousands)	
Sales, net	$ 388,781	$ 318,235
Costs and expenses:		
Cost of goods sold	271,860	245,750
Selling, general, and administrative expenses	56,148	50,004
Depreciation expense	6,960	7,358
Amortization expense	5,010	5,010
Operating profit	48,803	10,113
Interest expense, net	31,224	38,126
Other (income) expense, net	(164)	439
Income (loss) before taxes	17,743	(28,452)
Income tax expense (benefit)	6,747	(11,091)
Net income (loss)	$ 10,996	$ (17,361)

The accompanying notes are an integral part of the consolidated condensed financial statements.

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GOODMAN GLOBAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
			(unaudited, in thousands)		
Balance at December 31, 2009	$	$ 1,294,214	$ 13,074	$ 8,230	$ 1,315,518
Net income			10,996		10,996
Foreign currency translation				842	842
Change in fair value of derivatives, net of tax				2,111	2,111
Comprehensive income					13,949
Stock compensation amortization		1,298			1,298
Balance at March 31, 2010	$	$ 1,295,512	$ 24,070	$ 11,183	$ 1,330,765

The accompanying notes are an integral part of the consolidated condensed financial statements.

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GOODMAN GLOBAL, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(unaudited, in thousands)	
Operating activities		
Net income (loss)	$ 10,996	$ (17,361)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	6,960	7,358
Amortization	5,010	5,010
Provision for doubtful accounts	2,394	1,429
Deferred tax provision	3,733	2,966
Gain on disposal of assets	(94)	(131)
Compensation expense related to stock options	1,298	1,248
Amortization of deferred financing costs	2,211	2,343
Amortization of original issue discount	1,598	1,776
Changes in operating assets and liabilities:		
Accounts receivable	5,562	25,751
Inventories	3,285	(48,343)
Other assets	(6,270)	(14,366)
Accounts payable and accrued expenses	(18,615)	7,449
Net cash provided by (used in) operating activities	18,068	(24,871)
Investing activities		
Purchases of property, plant, and equipment	(4,212)	(6,123)
Proceeds from the sale of property, plant, and equipment		3
Net cash used in investing activities	(4,212)	(6,120)
Financing activities		
Net increase (decrease) in cash	13,856	(30,991)
Cash at beginning of period	39,679	144,118
Cash at end of period	$ 53,535	$ 113,127
Supplementary disclosures of cash flow information:		
Cash paid for interest and fees	$ 41,399	$ 24,586
Cash paid for income taxes, net of refunds	$ 9,546	$ 1,935

The accompanying notes are an integral part of the consolidated condensed financial statements.

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Three Months Ended March 31, 2010 and 2009

(Unaudited)

1. Basis of Presentation

Basis of Consolidation

The accompanying unaudited consolidated condensed financial statements of Goodman Global, Inc. (the Company), have been prepared in accordance with Rule 10-01 of Regulation S-X for interim financial statements required to be filed with the Securities and Exchange Commission (SEC) and do not include all information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. However, the information furnished herein reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimated. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the SEC. These consolidated condensed financial statements should be read in conjunction with the Company s consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC on March 12, 2010.

The results of operations for the three months ended March 31, 2010 and 2009 are not necessarily indicative of the results that may be expected for a full year. Although there is demand for the Company s products throughout the year, in each of the past three years approximately 58% to 60% of total sales occurred in the second and third quarters of the fiscal year. The Company s peak production also typically occurs in the second and third quarters of each year.

The Company follows Financial Accounting Standards Board (FASB) accounting standards in the evaluation of its reporting requirements related to business segments. As the Company s consolidated financial information is reviewed by the chief decision makers and the business is managed under one operating and marketing strategy, the Company operates under one reportable segment. Long-lived assets outside the United States have not been significant.

The Company is an indirect subsidiary of Goodman Global Group, Inc. (Parent), a Delaware corporation formed in October 2007 by affiliates of Hellman & Friedman LLC.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued new guidance requiring more bifurcation of embedded credit derivatives. The new guidance requires investors in synthetic collateralized debt obligations to bifurcate the embedded credit derivative features related to the written credit default swap and account for the credit derivative at fair value or alternatively elect the fair value option for the hybrid instrument. The changes are effective for interim or annual periods after June 10, 2010. The Company does not anticipate that adoption of this pronouncement will have a material impact on its financial statements.

The FASB has issued new revenue recognition guidance for multiple-deliverable arrangements which amends previously issued guidance to permit multiple-deliverable arrangements to be separated in more circumstances. The amendments establish a hierarchy for determining the selling price of a deliverable and replace the term fair value in the revenue allocation with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of the marketplace participant. The amendments also eliminate the residual method of allocation and require that arrangement considerations be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The changes are effective for annual periods after June 10, 2010. The Company does not anticipate that adoption of this pronouncement will have a material impact on its financial statements.

2. Significant Accounting Policies and Balance Sheet Accounts

The Company s critical accounting policies are included in its Annual Report on Form 10-K for the year ended December 31, 2009 as filed on March 12, 2010. The Company believes that there have been no significant changes during the three months ended March 31, 2010 to the critical accounting policies disclosed in its Annual Report on Form 10-K for the year ended December 31, 2009.

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

Restricted Cash and Cash Equivalents

At March 31, 2010 and December 31, 2009, the restricted cash pertains to the Company s extended warranty program and is invested in United States treasury notes and bills.

Allowance for Doubtful Accounts

A roll forward of receivable reserves consists of the following (in thousands):

	Three months ended March 31, 2010	Three months ended March 31, 2009
At the beginning of the period	$ 4,386	$ 3,900
Current period accruals	2,394	1,429
Current period uses	(3,393)	(1,193)
At the end of the period	$ 3,387	$ 4,136

Inventories

Inventory costs include material, labor, transportation costs and plant overhead. The Company s inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories consist of the following (in thousands):

	March 31, 2010	December 31, 2009
Raw materials and parts	$ 20,309	$ 22,005
Finished goods	271,057	272,646
Total inventories	$ 291,366	$ 294,651

A roll forward of inventory reserves consists of the following (in thousands):

	Three months ended March 31, 2010	Three months ended March 31, 2009
At the beginning of the period	$ 5,414	$ 4,319
Current period accruals	1,263	505
Current period uses	(1,767)	(210)
At the end of the period	$ 4,910	$ 4,614

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Expenditures for renewals and improvements are capitalized and expenditures for repairs and maintenance are charged to expense as incurred. Buildings and improvements and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment consist of the following (in thousands):

	Useful lives in years	March 31, 2010	December 31, 2009
Land		$ 14,417	$ 14,417
Buildings and improvements	10-39	49,643	49,588
Equipment	3-10	152,518	148,037
Construction-in-progress		9,361	11,467
		225,939	223,509
Less: Accumulated depreciation		(59,268)	(53,603)
Total property, plant and equipment, net		$ 166,671	$ 169,906

Deferred Financing Costs

Debt issuance costs are capitalized and amortized to interest expense using the effective interest method over the period the related debt is anticipated to be outstanding.

Goodwill

Goodwill is the excess of the cost of an acquired company over the amounts assigned to assets acquired and liabilities assumed. Goodwill and other indefinite-lived intangibles are not amortized but are tested for impairment annually or more frequently if an event occurs or circumstances change that would indicate the carrying amount could be impaired. Impairment testing for goodwill is done at the reporting unit level, which the Company has concluded is on a consolidated basis as the Company has only one reporting unit. An impairment charge generally would be recognized when the carrying amount of the reporting unit exceeds the estimated fair value of the reporting unit. The Company estimates fair value using standard business valuation techniques such as discounted cash flows, industry participant information and reference to comparable business transactions. The discounted cash flow fair value estimates are based on the Company s projected future cash flows and the estimated weighted-average cost of capital of market participants. Management assumptions about expected future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized. The estimated weighted-average cost of capital is based on the risk-free interest rate and other factors such as equity risk premiums and the ratio of total debt and equity capital. The Company performed its annual test as of October 1, 2009 and determined that no impairment exists. As of March 31, 2010, there were no indicators noted that would require the Company to re-evaluate its annual impairment test.

Identifiable Intangible Assets

The values assigned to amortizable intangible assets are amortized to expense over their estimated useful lives and are reviewed for potential impairment. The estimated useful lives are based on an evaluation of the circumstances surrounding each asset, including an evaluation of events that may have occurred that would cause the useful life to be decreased. In the event the useful life would be considered to be shortened, or if the asset s future value were deemed to be impaired, an appropriate amount would be charged to amortization expense. Future operating results and residual values could therefore reasonably differ from our current estimates and could require a provision for impairment in a future period. Indefinite lived intangible assets are reviewed in accordance with FASB accounting standards by comparison of the fair market value with its carrying amount. The Company performed its annual test as of October 1, 2009 and determined that no impairment exists. As of March 31, 2010, there were no indicators noted that would require the Company to re-evaluate its annual impairment test.

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

The values assigned to the Company s identifiable intangible assets were determined using the income approach, whereby the fair value of an asset is based on the present value of its estimated future economic benefits. This approach was considered appropriate, as the inherent value of these intangible assets is their ability to generate current and future cash flows. The key assumption in using this approach is the identification of the revenue streams attributable to these assets based on projected future revenues. Amounts allocated to the identifiable intangibles are amortized on a straight-line basis over their estimated useful lives, with no residual value, as follows:

	Useful lives in years
Customer relationships	40
Trade names Amana	15
Trade names other	Indefinite
Technology	10

Identifiable intangible assets as of March 31, 2010 consist of the following (in thousands):

	Gross	Accumulated amortization	Net
Intangible assets subject to amortization:			
Customer relationships	$ 535,000	$ (28,554)	$ 506,446
Trade names Amana	40,000	(5,693)	34,307
Technology	40,000	(8,540)	31,460
Total intangible assets subject to amortization	615,000	(42,787)	572,213
Total indefinite-lived trade names	205,000		205,000
Total identifiable intangible assets	$ 820,000	$ (42,787)	$ 777,213

The amortization related to the amortizable intangibles assets in the aggregate will be approximately $20.0 million per year over the next five years.

Accrued Warranty

A roll forward of the liabilities for warranties consists of the following (in thousands):

	Three months ended March 31, 2010	Three months ended March 31, 2009
At the beginning of the period	$ 37,233	$ 37,683
Current period accruals	5,418	7,876
Current period uses	(6,355)	(9,208)

At the end of the period	$	36,296	$	36,351

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

Other Accrued Expenses

Other accrued expenses consist of the following significant items (in thousands):

	March 31, 2010	December 31, 2009
Accrued rebates	$ 20,851	$ 33,423
Accrued payroll	9,623	27,595
Accrued self insurance reserves	12,305	12,558
Customer deposits	9,951	1,302
Accrued interest	7,288	21,597
Derivative liability	1,693	1,138
Accrued taxes	7,427	8,292
Other	21,458	18,378
Total accrued expenses	$ 90,596	$ 124,283

3. Long-Term Debt

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

	March 31, 2010	December 31, 2009
Senior subordinated notes	$ 423,962	$ 423,962
Term loan credit agreement	754,000	754,000
Revolving credit agreement		
Original issue discount	(15,574)	(17,172)
Total long-term debt, net of original issue discount	1,162,388	1,160,790
Current portion of long-term debt		
Long-term debt	$ 1,162,388	$ 1,160,790

Senior subordinated notes

In February 2008, the Company issued and sold $500.0 million of 13.50%/14.00% senior subordinated notes due 2016. The senior subordinated notes bear interest at a rate of 13.50% per annum, provided that the Company may, at its option, elect to pay interest in any interest period at a rate of 14.00%, per annum, in which case up to 3.0% per annum may be paid by issuing additional notes. The senior subordinated notes are wholly and unconditionally guaranteed by each subsidiary guarantor.

Term loan credit agreement/revolving credit agreement

In February 2008, the Company entered into an $800.0 million term loan credit agreement due 2014 and a $300.0 million revolving credit agreement due 2013. The term loan credit agreement has an interest rate of Prime or the per annum London Interbank Offered Rate (LIBOR), with a minimum of 3.25% plus applicable margin, based on certain leverage ratios, which was 3.0% and totaled 6.25% as of March 31, 2010. The revolving credit agreement has an interest rate of Prime or LIBOR, plus applicable margin, which was 1.0% and totaled 4.25% as of March 31, 2010.

The Company has previously made payments on its term loan credit agreement to satisfy its obligations through December 31, 2013 and in April 2010 the Company elected to make an additional $7.1 million payment to further reduce its outstanding obligation. The outstanding balance is due at maturity in February 2014.

The Company had availability under the revolving credit agreement of $211.4 million at March 31, 2010 after taking into consideration outstanding commercial and standby letters of credit issued under the credit facility, which totaled $33.5 million as of March 31, 2010.

Original issue discount

The term loan credit agreement included an original issue discount of $32.0 million. It is being amortized to interest expense using the effective interest method over the period the debt is anticipated to be outstanding through maturity. As of March 31, 2010, the unamortized balance of the original issue discount was $15.6 million.

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

Deferred financing costs

The Company incurred $45.7 million in loan origination fees and direct loan origination costs related to issuance of the senior subordinated notes and the term loan and revolving credit agreement. In December 2009, the Company paid a fee of $3.0 million to the holders of the term loan and revolving credit agreement to obtain amendments to permit a one-time dividend payable to its stockholder. As of March 31, 2010, the Company had $25.8 million in unamortized deferred financing costs which is being amortized to interest expense using the effective interest method over the period that the debt is anticipated to be outstanding.

Other

Future maturities of long-term debt by year at March 31, 2010 are as follows (in thousands):

2010	$
2011	
2012	
2013	
2014	754,000
Thereafter	423,962

Under the term loan credit agreement, the Company is required to satisfy and maintain specified financial ratios and other financial condition tests, including a minimum interest coverage ratio and a maximum total leverage ratio. In addition, under its revolving credit agreement, the Company is required to satisfy and maintain, in certain circumstances, a minimum fixed charge coverage ratio. As of March 31, 2010, the Company was in compliance with all of the covenants under its senior term loan credit agreement, revolving credit agreement and senior subordinated notes.

All of the existing U.S. subsidiaries of the Company (other than AsureCare Corp., a Florida corporation and Goodman Global Finance (Delaware) LLC, a Delaware limited liability company) and all future restricted U.S. subsidiaries of the Company guarantee its debt obligations. In addition, Chill Intermediate Holdings, Inc. guarantees the Company s debt obligations under the term loan and revolving credit agreements. The Company is structured as a holding company and substantially all of its assets and operations are held by its subsidiaries. There are currently no significant restrictions on the ability of the Company to obtain funds from its subsidiaries by dividend or loan. The Company s and the non-guarantor subsidiaries independent assets, revenues, income before taxes, and operating cash flows in total are more than 3% of the consolidated total. As such, separate financial statements of the guarantors are included herein in Note 10 condensed consolidating financial information.

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB accounting standards also provide a framework for measuring fair value, establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and requires consideration of the Company s creditworthiness when valuing certain liabilities. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company had no transfers of amounts between the levels of the fair value hierarchy during the three months ended March 31, 2010.

The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.

Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities which are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- quoted prices for similar assets and liabilities in active markets
- quoted prices for identical or similar assets or liabilities in markets that are not active
- observable inputs other than quoted prices that are used in the valuation of the assets or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - Unobservable inputs for the asset or liability that is supported by little or no market activity. Level 3 inputs include management s own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions of risk)

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

	Fair value measurements on a recurring basis (In thousands)			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Restricted cash	$ 2,700	$	$	$ 2,700
Derivatives, net		20,679 (1)		20,679

(1) Based upon counterparty statements at March 31, 2010 where the indicative valuation was determined either (a) by means of a mathematical model that calculated the present value of the anticipated cash flows from the transaction using mid-market prices and other economic data and assumptions or (b) by means of pricing indications from one or more other dealers as selected by the counterparty.

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

Other Fair Value Measurements

Long-term debt

In order to determine the fair value of its debt instruments as of March 31, 2010, the Company considered valuation techniques that included the market, income and liquidation approaches in the analysis of its interest bearing debt. The Company elected to determine the fair value of each tranche of interest bearing debt using the income approach. The fair values presented are estimates and are not necessarily indicative of amounts for which the Company could settle such instruments currently or indicative of its intent or ability to dispose of or liquidate them. The Company estimates the fair value of its interest bearing debt as follows (in thousands):

Interest bearing security	Par value as of March 31, 2010	Range of fair value at March 31, 2010 Low	High
Senior subordinated notes	$ 423,962	$ 464,533	$ 482,790
Term loan	754,000	753,828	778,567

5. Stock Compensation Plans

On February 13, 2008, the Board of Directors of the Parent adopted the 2008 Chill Holdings, Inc. Stock Incentive Plan (2008 Plan). The 2008 Plan is a comprehensive incentive compensation plan that permits grants of equity-based compensation awards in the form of stock options (either incentive stock options or non-qualified stock options) or other stock-based awards, including restricted stock purchase awards, restricted stock units and stock appreciation rights.

FASB accounting standards require that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton model. The exercise price for options granted are based on contemporaneous appraisals of the Company s common stock. The Company estimates the fair value of common stock using standard business valuation techniques such as discounted cash flows, industry participant information and reference to comparable business transactions. The discounted cash flow fair value estimates are based on our projected future cash flows and the estimated weighted-average cost of capital of market participants. Management assumptions about expected future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized. The estimated weighted-average cost of capital is based on the risk-free interest rate and other factors such as equity risk premiums and the ratios of total debt and equity capital.

The Company uses the modified prospective method of application, which requires it to recognize compensation cost on a prospective basis. The Company recognizes compensation cost on a straight-line basis over the requisite service period for each separately vesting portion of the award. Excess tax benefits related to stock option exercises are reflected as financing cash flows.

During the first quarter of 2010, the Company granted 212,000 options with an exercise price of $10.40 per share to certain non-executive employees, which price was determined by Parent s board of directors as fair value of its common stock as of the grant date. Subsequent to the grant date, the Company re-evaluated the assumptions used in determining the fair value of such options and determined that on the date of such option grant the fair value of the common stock was $16.10 per share and, as a result, will record total compensation expense of $1.9 million over the four year vesting period of such options.

The Company recognized compensation expense of $1.3 million ($0.8 million net of tax) and $1.2 million ($0.8 million net of tax), respectively, during the three months ended March 31, 2010 and March 31, 2009. The Company includes this expense in selling, general and administrative in the accompanying statement of income.

6. Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following (in thousands):

	Defined benefit plans	Change in fair value of derivatives	Foreign currency translation	Total
December 31, 2009	$ (3,874)	$ 14,103	$ (1,999)	$ 8,230
Net change through March 31, 2010		2,111	842	2,953
March 31, 2010	$ (3,874)	$ 16,214	$ (1,157)	$ 11,183

7. Derivatives

The Company uses derivative instruments to manage risks related to interest rates, contracted transportation and the purchases of certain commodities. The Company evaluates each derivative instrument to determine whether it qualifies for hedge accounting treatment.

Interest Rate Risks

Certain of the Company s long-term obligations are subject to interest rate risks. To reduce the risk associated with fluctuations in the interest rate of our floating rate debt: (1) in May 2008, the Company entered into a two-year interest rate cap with a notional amount of $150.0 million that matures in May 2010; (2) in March 2009, the Company entered into an interest rate swap with a notional amount of $200.0 million that matured in March 2010; and (3) in March 2009, the Company entered into an interest rate swap with a notional amount of $300.0 million that matures in March 2011. The Company elected not to designate the interest rate derivatives as cash flow hedges. Therefore, gains and losses from changes in the fair values of derivatives that are not designated as hedges are recognized in interest expense, net.

Fuel Surcharge Risks

As a part of its risk management strategy, the Company purchased a commodity contract for diesel in order to manage its exposure related to contracted transportation. Prices for diesel are normally correlated to transportation costs where third party

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haulers assess a fuel surcharge when diesel prices increase thus making derivatives of diesel effective at providing short-term protection against adverse price fluctuations. The Company elected not to designate the diesel derivatives as cash flow hedges. Therefore, gains and losses from changes in the fair values of derivatives that are not designated as hedges are recognized in other (income) expense.

Commodity Derivatives

The Company uses financial instruments to manage market risk from changes in commodity prices and selectively hedges anticipated transactions that are subject to commodity price exposure, primarily using commodity contracts relating to raw materials used in its production process. The Company has open positions for copper and aluminum in notional amounts of 18.2 million pounds and 56.8 million pounds, respectively, to fix the purchase price, and thereby substantially reduce the variability of its purchase price for these commodities. The swaps, which expire at various dates through 2011, have been designated as cash flow hedges.

For these qualifying cash flow hedges, changes in the fair market value of these hedge instruments are reported in accumulated other comprehensive income (OCI) and reclassified into earnings in the same period during which the hedged transaction affects earnings. Assuming commodity prices remain constant, $17.8 million of derivative gains are expected to be reclassified into earnings within the next twelve months. The Company has assessed the effectiveness of the transactions that receive hedge accounting treatment and any ineffectiveness would be recorded in other (income) expense.

FASB accounting standards establish, among other things, the disclosure requirements for derivative instruments and for hedging activities. Certain qualitative disclosures are required about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit risk related contingent features in derivative agreements.

The following table discloses the fair value of the derivative instruments in the Company s condensed consolidated balance sheets (in thousands):

		Asset derivatives	
		Fair value as of	
	Balance sheet location	March 31, 2010	December 31, 2009
Commodity contracts raw materials	Other current assets	$ 15,758	$ 15,777
Commodity contracts raw materials	Other long term assets	6,614	7,601
		$ 22,372	$ 23,378

		Liability derivatives	
		Fair value as of	
	Balance sheet location	March 31, 2010	December 31, 2009
Interest rate swaps	Other accrued expenses	$ 1,646	$ 1,138
Commodity contracts - diesel	Other accrued expenses	47	
		$ 1,693	$ 1,138

Derivatives in cash flow hedging relationships	Amount of (gain) loss recognized in OCI on derivative (effective portion) as of March 31, 2010	December 31, 2009
Commodity contracts	$ (16,214)	$ (14,103)

Location of (gain) loss reclassified from Accumulated OCI into income (effective portion)	Amount of (gain) loss reclassified from accumulated OCI into income (effective portion) for the three months ended March 31, 2010	March 31, 2009	Location of loss recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of (gain) loss recognized in income on derivative (ineffective portion and amount excluded from ineffectiveness testing) for the three months ended March 31, 2010	March 31, 2009
Cost of goods sold	$ (3,739)	$ 14,450	Other (income) expense	$ (115)	$ 932

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The following table discloses the effect of derivative instruments on the statements of income that are not designated as hedging instruments (in thousands):

Derivatives not designated as hedging instruments	Location of loss recognized in income on derivative	Amount of loss recognized in income on derivative for the three months ended March 31, 2010	March 31, 2009
Commodity contracts - diesel	Other expense	$ 47	$
Interest rate swaps	Interest expense, net	1,173	1,504
		$ 1,220	$ 1,504

Contingent Features

The Company s derivative instruments contain provisions that require the counterparties debt to maintain an investment grade rating. If the rating of the debt were to fall below investment grade, it would be in violation of these provisions which would render the hedging relationship ineffective. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in an asset position on March 31, 2010 was $22.4 million. As of March 31, 2010, the counterparties were at or above an acceptable investment grade rating.

8. Employee Benefit Plans

The Company sponsors a defined benefit plan, which covers union employees hired on or before December 14, 2002 who have both attained age 21 and completed one year of service. Benefits are provided at stated amounts based on years of service, as defined by the plan. Benefits vest after completion of five years of service. The Company s funding policy is to make contributions in amounts adequate to fund the benefits to be provided. Plan assets consist of primarily equity and fixed-income securities.

The Company made a contribution to the plan during the first quarter of 2010 of $0.2 million. The Company will make contributions to the plan during the remainder of 2010 of approximately $0.7 million.

The components of net periodic benefit cost recognized during interim periods are as follows (in thousands):

	Three months ended March 31, 2010	Three months ended March 31, 2009
Service cost	$ 173	$ 160
Interest cost	533	481
Expected return on plan assets	(549)	(441)
Amortization of prior service cost		
Amortization of net loss	81	100
Net periodic benefit cost	$ 238	$ 300

9. Contingent Liabilities

As part of the equity contribution associated with the sale of the Amana Appliance business in July 2001, the Company agreed to indemnify Maytag for certain potential product liability claims. In light of these potential liabilities, the Company has purchased insurance that the Company expects will shield it from incurring material costs associated with such potential claims.

Pursuant to a March 15, 2001 Consent Order (the Consent Order) with the Florida Department of Environmental Protection (FDEP), the Company s subsidiary, Goodman Distribution Southeast, Inc. (GDI Southeast) (formerly Pioneer Metals Inc.) is continuing to investigate and pursue, under FDEP oversight, the delineation of groundwater contamination at and around the GDI Southeast facility in Fort Pierce, Florida. Remediation has not begun. The contamination was discovered through environmental assessments conducted in connection with a Company subsidiary s acquisition of the Fort Pierce facility in 2000 and was reported to FDEP, giving rise to the Consent Order.

The ultimate cost for the investigation, remediation and monitoring of the site cannot be predicted with certainty due to the variables relating to the contamination and the appropriate remediation methodology, the evolving nature of remediation technologies and governmental regulations and the inability to determine the extent to which contribution will be available from other parties. All of these factors are taken into account to the extent possible in estimating potential liability. A reserve appropriate for the probable remediation costs, which are reasonably susceptible to estimation, has been established.

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Based on analyses of currently available information, it is probable that the proposed infrastructure and setup costs associated with the site will be approximately $0.5 million. The Company reserved approximately $0.5 million as of December 31, 2009, although it is possible that costs could exceed this amount by up to approximately $3.3 million. Costs of future expenditures are not discounted to their present value. Management believes any liability arising from potential environmental obligations is not likely to have a material adverse effect on the Company s liquidity or financial position as such obligations could be satisfied over a period of years. Nevertheless, future developments could require material changes in the recorded reserve amount.

The Company believes this contamination predated GDI Southeast s involvement with the Fort Pierce facility and GDI Southeast s operation at this location has not caused or contributed to the contamination. Accordingly, the Company is pursuing litigation against a former owner and a former lessee of the Fort Pierce facility in an attempt to recover its costs. At this time, the Company cannot estimate probable recoveries from this litigation.

On March 31, 2010, GDI Southeast merged with and into the Company s subsidiary Goodman Distribution, Inc., with Goodman Distribution, Inc. being the surviving entity and assuming the liabilities and obligations of GDI Southeast, including its obligations under the Consent Order.

In April 2010, the Company received two Notices of Proposed Adjustment from the Department of Treasury Internal Revenue Service covering its consolidated return for the period January 1 through February 13, 2008. The proposed adjustments disallow as non-recoverable costs deductions for certain expenses related to the 2008 Acquisition and would increase income taxes by approximately $11.5 million plus interest, which would be recorded as a charge to income tax expense. We believe that the deductions were appropriate and are in discussion with the IRS regarding this matter. At this time, the IRS has not concluded its review of Goodman Global, Inc. s consolidated returns for the years ended December 31, 2006 and 2007 and the period January 1 to February 13, 2008.

The Company is party to a number of other pending legal and administrative proceedings and is subject to various regulatory and compliance obligations. The Company believes that these proceedings and obligations will not have a materially adverse effect on its consolidated financial condition, cash flows or results of operations. To the extent required, the Company has established reserves that it believes to be adequate based on current evaluations and its experience in these types of matters. Nevertheless, an unexpected outcome in any such proceeding could have a material adverse impact on the Company s consolidated results of operations in the period in which it occurs. Moreover, future adverse developments could require material changes in the recorded reserve amounts.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

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10. Condensed consolidating financial information

As discussed in Note 3, all of the existing U.S. subsidiaries of the Company (other than AsureCare Corp. and Goodman Global Finance (Delaware) LLC) and all future restricted U.S. subsidiaries of the Company guarantee the Company s debt obligations. The Company is structured as a holding company and substantially all of its assets and operations are held by its subsidiaries. The following information presents the condensed consolidating balance sheets as of March 31, 2010 and December 31, 2009, the condensed consolidating statements of operations for the three months ended March 31, 2010 and March 31, 2009 and the condensed consolidating cash flows for the three months ended March 31, 2010 and March 31, 2009 of (a) the Guarantors , Goodman Global, Inc., and all of the existing U.S. subsidiaries of the Company (other than AsureCare Corp. and Goodman Global Finance (Delaware) LLC), (b) the Non-Guarantors , AsureCare Corp., Goodman Global Finance (Delaware) LLC and Goodman Canada, L.L.C., and includes eliminating entries and the Company on a consolidated basis. Intercompany transactions are reflected in financing activities in the condensed consolidating statements of cash flows.

Condensed Consolidating Balance Sheet

	March 31, 2010			
	Guarantors	Non-guarantors	Consolidating Entries	Consolidated
Current assets	$ 572,241	$ 27,547	$	$ 599,788
Property, plant and equipment	166,502	169		166,671
Goodwill	1,399,536			1,399,536
Identifiable intangibles	777,213			777,213
Other assets	32,812		(442)	32,370
Investment in affiliates	29,162		(29,162)	
Total assets	$ 2,977,466	$ 27,716	$ (29,604)	$ 2,975,578
Current liabilities	$ 230,281	$ 1,541	$	$ 231,822
Intercompany payable (receivable)	4,278	(4,278)		
Long-term debt, less current portion	1,162,388			1,162,388
Long-term liabilities	249,312	1,291		250,603
Shareholders equity	1,331,207	29,162	(29,604)	1,330,765
Total liabilities and shareholders equity	$ 2,977,466	$ 27,716	$ (29,604)	$ 2,975,578

	December 31, 2009			
	Guarantors	Non-guarantors	Consolidating Entries	Consolidated
Current assets	$ 559,989	$ 32,193	$	$ 592,182
Property, plant and equipment	169,776	130		169,906
Goodwill	1,399,536			1,399,536
Identifiable intangibles	782,223			782,223
Other assets	36,118		(442)	35,676

Investment in affiliates	26,767				(26,767)		
Total assets	$ 2,974,409	$	32,323	$	(27,209)	$	2,979,523
Current liabilities	$ 251,287	$	5,267	$		$	256,554
Intercompany payable (receivable)	887		(887)				
Long-term debt, less current portion	1,160,790						1,160,790
Long-term liabilities	245,485		1,176				246,661
Shareholders equity	1,315,960		26,767		(27,209)		1,315,518
Total liabilities and shareholders equity	$ 2,974,409	$	32,323	$	(27,209)	$	2,979,523

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

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Condensed Consolidating Statement of Operations

	Three months ended March 31, 2010			
	Guarantors	Non-guarantors	Consolidating Entries	Consolidated
Sales, net	$ 371,943	$ 17,438	$ (600)	$ 388,781
Cost of goods sold	257,705	14,755	(600)	271,860
Selling, general and administrative expenses	54,442	1,706		56,148
Depreciation and amortization	11,953	17		11,970
Operating profit	47,843	960		48,803
Interest (income) expense, net	31,252	(28)		31,224
Other (income) expense, net	(383)	219		(164)
Equity in earnings of affiliates	(161)		161	
Earnings before income taxes	17,135	769	(161)	17,743
Income tax expense (benefit)	6,139	608		6,747
Net income (loss)	$ 10,996	$ 161	$ (161)	$ 10,996

	Three months ended March 31, 2009			
	Guarantors	Non-guarantors	Consolidating Entries	Consolidated
Sales, net	$ 309,791	$ 8,851	$ (407)	$ 318,235
Cost of goods sold	238,392	7,765	(407)	245,750
Selling, general and administrative expenses	48,689	1,315		50,004
Depreciation and amortization	12,349	19		12,368
Operating profit	10,361	(248)		10,113
Interest (income) expense, net	38,186	(60)		38,126
Other (income) expense, net	572	(133)		439
Equity in earnings of affiliates	55		(55)	
Earnings before income taxes	(28,452)	(55)	55	(28,452)
Income tax expense (benefit)	(11,091)			(11,091)
Net income (loss)	$ (17,361)	$ (55)	$ 55	$ (17,361)

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

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Condensed Consolidating Statement of Cash Flows

	Three months ended March 31, 2010			
	Guarantors	Non-guarantors	Consolidating Entries	Consolidated
Net cash provided by (used in):				
Operating Activities	$ 18,837	$ (769)	$	$ 18,068
Investing Activities	(4,160)	(52)		(4,212)
Financing Activities				
Net increase (decrease) in cash	14,677	(821)		13,856
Cash at beginning of period	37,572	2,107		39,679
Cash at end of period	$ 52,249	$ 1,286	$	$ 53,535

	Three months ended March 31, 2009			
	Guarantors	Non-guarantors	Consolidating Entries	Consolidated
Net cash provided by (used in):				
Operating Activities	$ (25,861)	$ 990	$	$ (24,871)
Investing Activities	(6,120)			(6,120)
Financing Activities	(7,070)	7,070		
Net increase (decrease) in cash	(39,051)	8,060		