

Goodman Global Inc  
Form 10-Q  
May 10, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark one)

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

For the quarterly period ended March 31, 2006

OR

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

Commission File No. 1-32850

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**GOODMAN GLOBAL, INC.**

(Exact name of registrant as specified in our charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

2550 North Loop West, Suite 400

Houston, Texas

20-1932219  
(I.R.S. Employer

Identification No.)

77092

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(Address of principal executive offices)

713-861-2500

(Zip Code)

(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of May 9, 2006, the number of shares outstanding of the registrant's common stock, par value \$0.01 per share, was 68,895,303.

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**GOODMAN GLOBAL, INC.**

**Form 10-Q**

**For the Quarterly Period Ended March 31, 2006**

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**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****Goodman Global, Inc.****Consolidated Condensed Balance Sheets**

	March 31, 2006 (unaudited)	December 31, 2005 (in thousands)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,463	\$ 23,779
Restricted cash	2,600	2,600
Accounts receivable, net of allowance for doubtful accounts (\$8.4 million in 2006; \$7.8 million in 2005)	218,621	220,123
Inventories	369,294	303,295
Deferred tax assets	17,285	14,089
Other current assets	12,377	12,786
<b>Total current assets</b>	<b>626,640</b>	<b>576,672</b>
Property, plant, and equipment, net	162,504	160,549
Goodwill	391,287	391,287
Identifiable intangibles	414,221	416,437
Deferred tax assets	43,682	46,235
Deferred financing costs	28,806	30,357
<b>Total assets</b>	<b>\$ 1,667,140</b>	<b>\$ 1,621,537</b>
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Trade accounts payable	\$ 160,514	\$ 156,870
Accrued warranty	58,105	58,068
Other accrued expenses	110,287	105,341
Current portion of long-term debt	3,500	3,500
<b>Total current liabilities</b>	<b>332,406</b>	<b>323,779</b>
Long-term debt, less current portion	957,000	957,875
Revolving credit facility	34,000	
Other long-term liabilities	6,719	6,498
Preferred stock, 9.5% Series A cumulative, par \$.01, 250,000 authorized, 225,570 issued and outstanding	225,570	225,570
Common stock, par value \$.01, 275,000,000 shares authorized, 47,972,190 issued and outstanding as of March 31, 2006 and December 31, 2005	480	480
Accumulated other comprehensive income	2,564	2,088
Additional paid-in capital	108,705	108,073
Retained deficit	(304)	(2,826)
<b>Total shareholders equity</b>	<b>111,445</b>	<b>107,815</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,667,140</b>	<b>\$ 1,621,537</b>

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

**Table of Contents****Goodman Global, Inc.****Consolidated Condensed Statements of Operations**

	<b>Three Months  Ended  March 31, 2006 (unaudited, in thousands, except share and per share data)</b>	<b>Three Months  Ended  March 31, 2005 (unaudited, in thousands, except share and per share data)</b>
Sales, net	\$ 380,688	\$ 296,307
Costs and expenses:		
Cost of goods sold	294,636	267,900
Selling, general, and administrative expenses	45,659	37,457
Depreciation expense	5,236	4,244
Amortization expense	2,217	2,400
Operating (loss) profit	32,940	(15,694)
Interest expense, net	19,741	18,134
Other income, net	(157)	(80)
Earnings (losses) before taxes	13,356	(33,748)
Provision for (benefit from) income taxes	4,942	(12,788)
Net income (loss)	\$ 8,414	\$ (20,960)
Less: Preferred stock dividends	5,892	5,345
Net income (loss) available to common shareholders	\$ 2,522	\$ (26,305)
Net income (loss) per share:		
Basic	\$ 0.05	\$ (0.55)
Diluted	\$ 0.05	\$ (0.55)
Average outstanding common shares:		
Basic	47,972,190	47,850,928
Diluted	49,624,273	47,850,928

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

**Table of Contents****Goodman Global, Inc.****Consolidated Condensed Statements of Cash Flows**

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	(unaudited, in thousands)	
<b>Operating activities</b>		
Net cash provided by (used in) operating activities	\$ (38,966)	\$ 18,391
<b>Investing activities</b>		
Purchases of property, plant, and equipment	(11,709)	(4,403)
Other assets and liabilities	221	(41)
Proceeds from sale of assets	13	
Net cash used in investing activities	(11,475)	(4,444)
<b>Financing activities</b>		
Repayments of long-term debt	(875)	(875)
Working capital adjustment		1,330
Net borrowing (payments) under revolving line facility	34,000	(10,435)
Net cash provided by (used in) financing activities	33,125	(9,980)
Net increase (decrease) in cash	(17,316)	3,967
Cash at beginning of period	23,779	3,856
Cash at end of period	\$ 6,463	\$ 7,823
Supplementary disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 9,711	\$ 8,842
Income taxes	\$ 9,551	\$ 9
Non-cash item: Accrual for purchases of property, plant and equipment	\$ 5,912	\$

*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, 2006**

**(Unaudited)**

**1. Basis of Presentation**

The accompanying unaudited condensed financial statements of Goodman Global, Inc. (the Company), which owns all of the issued and outstanding stock of Goodman Global Holdings, Inc., a Delaware corporation, 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 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 results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for a full year.

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 Securities and Exchange Commission. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements thereto for the year ended December 31, 2005.

The Company follows Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*. 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.

On December 23, 2004, an affiliate of Apollo Management, L.P. (Apollo) acquired our business (the Acquisition). In connection with the Acquisition, affiliates of Apollo, Company senior management and certain trusts associated with members of the Goodman family (the Goodman Trusts) contributed approximately \$477.5 million in cash to the Company in exchange for common and preferred stock.

**2. Significant Balance Sheet Accounts**

***Restricted Cash and Cash Equivalents***

Cash equivalents represent short-term investments with an original maturity of three months or less. At March 31, 2006 and December 31, 2005, the restricted cash pertains to the Company's extended warranty program.

**Inventories**

Inventory costs include material, labor, depreciation, logistics, and plant overhead. The Company's inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method. As a result of the Acquisition, the Company's 2004 inventory was increased by \$44.0 million to reflect the fair value to the extent of the new investors' ownership of in process and finished goods inventory. As of March 31, 2005, this fair market value adjustment has been effectively reversed as the related inventory was sold and replaced by manufactured inventory valued at cost. The 2005 impact to our statement of income was an increase to our cost of goods sold of \$39.6 million, or \$(0.51) per share, for the three months ended March 31, 2005.



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Inventories consist of the following (in thousands):

	March 31, 2006	December 31, 2005
Raw materials and parts	\$ 27,971	\$ 29,125
Finished goods	341,323	274,170
	<b>\$ 369,294</b>	<b>\$ 303,295</b>

**Property, Plant, and Equipment**

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

	March 31, 2006	December 31, 2005
Land	\$ 12,162	\$ 12,162
Buildings and improvements	55,530	55,465
Equipment	94,735	83,041
Construction-in-progress	22,766	27,335
	<b>185,193</b>	<b>178,003</b>
Less: Accumulated depreciation	(22,689)	(17,454)
	<b>\$ 162,504</b>	<b>\$ 160,549</b>

**Identifiable Intangible Assets**

Identifiable intangible assets as of March 31, 2006 consist of the following (in thousands):

	Gross	Accumulated Amortization & Impairment	Net
Intangible assets subject to amortization:			
Customer relationships	\$ 291,560	\$ 9,291	\$ 282,269
Technology	15,760	2,008	13,752
Contracts	11,033	11,033	
Total intangible assets subject to amortization	<b>318,353</b>	<b>22,332</b>	<b>296,021</b>
Total indefinite-lived trade names	<b>118,200</b>		<b>118,200</b>
Total identifiable intangible assets	<b>\$ 436,553</b>	<b>\$ 22,332</b>	<b>\$ 414,221</b>

**Accrued Warranty**

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

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	Three Months Ended	Twelve Months Ended
	March 31, 2006	December 31, 2005
At the beginning of the period	\$ 58,068	\$ 59,479
Current-period accruals	8,292	32,503
Current-period uses	(8,255)	(33,914)
At the end of the period	\$ 58,105	\$ 58,068

**Table of Contents****Other Accrued Expenses**

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

	March 31, 2006	December 31, 2005
Accrued rebates	\$ 16,621	\$ 21,682
Accrued self insurance reserves	18,112	17,970
Dividends payable	28,932	23,040
Accrued interest	15,276	6,729
Other	31,346	35,920
	<b>\$ 110,287</b>	<b>\$ 105,341</b>

**3. Stock Compensation Plans**

Subsequent to the Acquisition, the Company adopted the 2004 Stock Option Plan. Under this plan, as amended, 4,798,752 shares of the authorized but unissued shares of common stock of Goodman Global, Inc. have been reserved for issuance. The plan permits the grant of options to purchase shares of common stock to eligible employees, consultants, and directors. As of March 31, 2006, the Company has granted 4.7 million options that vest in installments through 2009. No additional options to purchase shares of common stock will be granted under the 2004 Stock Option Plan. During the first quarter of 2006, the Company amended certain options granted on December 23, 2004, March 1, 2005 and April 18, 2005 to provide that the installment, which would otherwise become vested with respect to the fiscal year 2009 upon attaining certain financial performance targets, became vested upon consummation of an initial public offering, which occurred in April of 2006. The amendment also allows for the payment of the exercise price through the surrender of previously owned shares of common stock of Goodman Global, Inc. or by cashless exercise.

On February 1, 2006, the Company adopted the 2006 Incentive Award Plan. Under this plan, 1,895,086 shares of the authorized but unissued shares of common stock of the Company have been reserved for issuance. In addition, shares of common stock that remain available for future option grants under the 2004 Stock Option Plan and shares underlying any existing grants under the 2004 Stock Option Plan that are forfeited will be available for issuance under the 2006 Incentive Award Plan. The plan permits the grant of stock-based compensation awards to eligible employees, consultants and directors. The 2006 Incentive Award Plan provides for a variety of such awards, including non-qualified stock options, incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), stock appreciation rights, restricted stock awards, restricted stock unit awards, deferred stock awards, dividend equivalents, performance share awards, performance-based awards, stock payment awards, or other stock-based awards. As of March 31, 2006, no awards have been granted under this plan.