Goodman Global Inc
Form 10-Q
May 10, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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.)**
2550 North Loop West, Suite 400	
Houston, Texas	**77092**
(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 þ 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 þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

As of May 8, 2007, the number of shares outstanding of the registrant s common stock, par value $0.01 per share, was 68,908,878.

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GOODMAN GLOBAL, INC.

Form 10-Q

For the Quarterly Period Ended March 31, 2007

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Part I. Financial Information

Item 1. Financial Statements

Goodman Global, Inc.

Consolidated Condensed Balance Sheets

	March 31, 2007 (unaudited)	December 31, 2006
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 8,110**	$ 11,569
Restricted cash	**2,600**	2,600
Accounts receivable, net of allowance for doubtful accounts ($6.1 million at March 31, 2007 and $7.3 million at December 31, 2006)	**232,584**	200,086
Inventories	**349,108**	346,059
Deferred tax assets	**20,718**	18,199
Other current assets	**19,444**	25,976
Total current assets	**632,564**	604,489
Property, plant, and equipment, net	**167,299**	172,246
Goodwill	**391,287**	391,287
Identifiable intangibles	**405,356**	407,572
Deferred tax assets	**46,298**	26,133
Deferred financing costs	**21,137**	22,244
Total assets	**$ 1,663,941**	$ 1,623,971
Liabilities and shareholders equity		
Current liabilities:		
Trade accounts payable	**$ 139,272**	$ 121,689
Accrued warranty	**41,490**	41,773
Other accrued expenses	**75,226**	80,347
Current portion of long-term debt	**3,500**	3,500
Total current liabilities	**259,488**	247,309
Long-term debt, less current portion	**833,675**	834,550
Revolving credit facility		
Other long-term liabilities	**44,317**	21,027
Common stock, par value $.01, 275,000,000 shares authorized, 68,908,878 issued and outstanding as of March 31, 2007 and 68,903,222 issued and outstanding as of December 31, 2006	**689**	689
Accumulated other comprehensive income	**4,320**	3,087
Additional paid-in capital	**463,176**	462,590
Retained earnings	**58,276**	54,719
Total shareholders equity	**526,461**	521,085
Total liabilities and shareholders equity	**$ 1,663,941**	$ 1,623,971

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Goodman Global, Inc.

Consolidated Condensed Statements of Income

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(unaudited, in thousands, except share and per share data)	
Sales, net	**$ 380,274**	$ 380,688
Costs and expenses:		
Cost of goods sold	**303,262**	294,636
Selling, general, and administrative expenses	**45,926**	45,659
Depreciation expense	**6,095**	5,236
Amortization expense	**2,216**	2,217
Operating profit	**22,775**	32,940
Interest expense, net	**16,907**	19,741
Other income, net	**(1,127)**	(157)
Earnings before taxes	**6,995**	13,356
Provision for income taxes	**2,364**	4,942
Net income	**$ 4,631**	$ 8,414
Less: Preferred stock dividends		5,892
Net income available to common shareholders	**$ 4,631**	$ 2,522
Net income per share:		
Basic	**$ 0.07**	$ 0.05
Diluted	**$ 0.07**	$ 0.05
Average outstanding common shares:		
Basic	**68,907,026**	47,972,190
Diluted	**70,703,098**	49,624,273

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, 2007	Three Months Ended March 31, 2006
	(unaudited, in thousands)	
Operating activities		
Net income	**$ 4,631**	$ 8,414
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	**6,095**	5,235
Amortization	**2,216**	2,217
Allowance for bad debt increase (decrease)	**(1,147)**	633
Deferred tax provision	**213**	(643)
Gain on disposal of assets	**(717)**	(13)
Amortization of deferred financing costs	**1,107**	1,551
Compensation expense relating to stock options	**483**	632
Changes in operating assets and liabilities:		
Accounts receivable	**(31,351)**	869
Inventories	**(3,049)**	(66,000)
Other assets	**(670)**	409
Accounts payable and accrued expenses	**24,614**	7,730
Net cash provided by (used in) operating activities	**$ 2,425**	$ (38,966)
Investing activities		
Purchases of property, plant, and equipment	**(10,282)**	(11,709)
Other assets and liabilities		221
Proceeds from sale of assets	**5,273**	13
Net cash used in investing activities	**$ (5,009)**	$ (11,475)
Financing activities		
Repayments of long-term debt	**(875)**	(875)
Net borrowing (payments) under revolving line facility		34,000
Net cash provided by (used in) financing activities	**$ (875)**	$ 33,125
Net decrease in cash	**(3,459)**	(17,316)
Cash at beginning of period	**11,569**	23,779
Cash at end of period	**$ 8,110**	$ 6,463
Supplementary disclosures of cash flow information		
Cash paid during the period for:		
Interest	**$ 3,912**	$ 9,711
Income taxes	**$ 1,279**	$ 9,551

Non-cash item: Accrual for purchases of property, plant and equipment	**$**	**326**	$	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, 2007

(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, 2007 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 56% to 58% of total sales occurred in the second and third quarters of the fiscal year. The Company s peak production occurs in the first and the second quarters in anticipation of peak sales quarters.

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, 2006.

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 April 11, 2006, the Company completed the initial public offering of the Company s common stock. The Company offered 20.9 million shares and selling shareholders sold an additional 6.1 million shares, which includes 3.5 million shares sold by selling shareholders pursuant to the exercise of the underwriters over-allotment option. Before expenses, the Company received proceeds of approximately $354.5 million. These proceeds were used to redeem all of the Company s outstanding Series A Preferred Stock including associated accrued dividends, and to satisfy a $16.0 million fee resulting from the termination of the Company s management agreement with Apollo. An additional amount will be used to redeem $70.7 million of the Company s floating rate notes.

The prior year financial statements give retroactive effect to a 7.580345-for-1 stock split of the Company s common stock that was effective April 4, 2006.

2. Significant Accounting Policies and 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, 2007 and December 31, 2006, 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.

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Inventories consist of the following (in thousands):

	March 31, 2007	December 31, 2006
Raw materials and parts	**$ 43,171**	$ 43,286
Finished goods	**305,937**	302,773
Total inventories	**$ 349,108**	$ 346,059

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

	Three Months Ended March 31, 2007	Twelve Months Ended December 31, 2006
At the beginning of the period	**$ 4,568**	$ 1,785
Current-period accruals	**1,344**	7,680
Current-period uses	**(1,587)**	(4,897)
At the end of the period	**$ 4,325**	$ 4,568

Property, Plant, and Equipment

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

	March 31, 2007	December 31, 2006
Land	**$ 11,070**	$ 12,162
Buildings and improvements	**54,026**	55,891
Equipment	**134,426**	131,206
Construction-in-progress	**14,548**	14,005
	214,070	213,264
Less: Accumulated depreciation	**(46,771)**	(41,018)
Total property, plant and equipment	**$ 167,299**	$ 172,246

During the first quarter of 2007, the Company sold a building and associated land used in our Company-operated distribution network for proceeds of $5.1 million and a recognized gain of $0.6 million. At the time of the sale, the Company entered into a lease for portion of the property.

Identifiable Intangible Assets

Identifiable intangible assets as of March 31, 2007 consist of the following (in thousands):

	Gross	Accumulated Amortization & Impairment	Net
Intangible assets subject to amortization:			
Customer relationships	**$ 291,560**	$ (16,580)	**$ 274,980**
Technology	**15,760**	(3,584)	**12,176**
Contracts	**11,033**	(11,033)	
Total intangible assets subject to amortization	**318,353**	(31,197)	**287,156**
Total indefinite-lived trade names	**118,200**		**118,200**
Total identifiable intangible assets	**$ 436,553**	$ (31,197)	**$ 405,356**

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Accrued Warranty

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

	Three Months Ended March 31, 2007	Twelve Months Ended December 31, 2006
At the beginning of the period	**$ 41,773**	$ 37,685
Current-period accruals	**7,491**	35,192
Current-period uses	**(7,774)**	(31,104)
At the end of the period	**$ 41,490**	$ 41,773

Other Accrued Expenses

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

	March 31, 2007	December 31, 2006
Accrued rebates	**$ 16,721**	$ 27,060
Accrued self insurance reserves	**15,199**	15,753
Interest	**15,717**	3,928
Other	**27,589**	33,606
Total accrued expenses	**$ 75,226**	$ 80,347

New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157 (SFAS 157), *Fair Value Measurements*, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. As a result of SFAS 157 there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the requirements of the standard and has not yet determined the impact on our consolidated financial statements.

3. Stock Compensation Plans

Consistent with December 31, 2006, the Company has 4,605,138 options outstanding of which 979,280 are exercisable as of March 31, 2007 under its 2004 Stock Option Plan and its 2006 Incentive Award Plan.

The Company recognized compensation expense of $0.5 million, ($0.3 million after tax) and $0.6 million, ($0.4 million after tax), during the three month period ended March 31, 2007 and 2006, respectively. These amounts are included in selling, general and administrative expenses in the accompanying statement of income for the period ended March 31, 2007 and 2006. The effect on earnings per share on both a basic and fully diluted basis is not significant for the three month period ended March 31, 2007 and 2006.

As of March 31, 2007, the total compensation cost related to non-vested awards not yet recognized in the statement of income is $3.9 million. This amount will be recognized on a weighted average period of 1.9 years.

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4. Comprehensive Income

Other comprehensive income consists of the following (in thousands):

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net income	**$ 4,631**	$ 8,414
Change in fair value of derivatives, net of tax	**1,128**	482
Foreign currency translation adjustment	**105**	(6)
Other comprehensive income	**$ 5,864**	$ 8,890

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, 2006	$ (1,132)	$ 3,097	$ 1,122	$ 3,087
Net change through March 31, 2007		1,128	105	1,233
Accumulated other comprehensive income (loss)	$ (1,132)	$ 4,225	$ 1,227	$ 4,320

5. Earnings Per Share

Basic earnings per share have been computed using the weighted-average number of common shares outstanding. The average number of outstanding common shares used in computing diluted earnings per share was equal to the average number of outstanding common shares used in computing basic earnings per share plus any incremental shares, primarily from the assumed exercise of stock options issued under the Company s stock option plans that were dilutive for the year.

The following table sets forth the components used in the computation of basic and diluted earnings per share (in thousands, except for share data):

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Numerator for earnings per share net income available to common shareholders	**$ 4,631**	$ 2,522
Denominator for basic earnings per share average basic common shares outstanding	**68,907,026**	47,972,190
Effects of diluted securities attributable to stock options	**1,796,072**	1,652,083
Diluted weighted average common shares outstanding	**70,703,098**	49,624,273

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6. Long-Term Debt

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

	March 31, 2007	December 31, 2006
Senior Floating Rate Notes	**$ 179,300**	$ 179,300
Senior Subordinated Notes	**400,000**	400,000
Term credit facility	**257,875**	258,750
Revolving credit facility		
Current maturities	**(3,500)**	(3,500)
Total long-term debt (including revolving credit facility), less current maturities	**$ 833,675**	$ 834,550

The Company had unused revolving credit under the revolving credit facility of $ 141.7 million at March 31, 2007. Outstanding commercial and standby letters of credit issued under the credit facility totaled $33.3 million as of March 31, 2007.

All of the existing and future restricted U.S. subsidiaries of Goodman Global Holdings, Inc. (other than AsureCare Corp., a Florida corporation) guarantee its floating rate notes and fixed rate notes. 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 Goodman Global Holdings, Inc. 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 less than 3% of the consolidated total. The separate financial statements of the guarantors are not included herein because (i) the subsidiary guarantors of Goodman Global Holdings, Inc. have fully and unconditionally, jointly and severally guaranteed the senior floating rate notes and the senior subordinated notes, and (ii) the aggregate assets, liabilities, earnings, and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings, and equity of the Company on a consolidated basis. As a result, the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

7. Derivatives

During the first quarter of 2005, the Company entered into interest rate swaps with notional amounts of $250.0 million, which expire in 2007 and 2008, to manage variable rate exposure on the floating rate debt. During the first quarter of 2007, the interest rate swap with a notional amount of $150.0 million matured based on its terms. The remaining swap has a fair market value receivable of $1.4 million as of March 31, 2007. These interest rate derivative instruments have been designated as cash flow hedges. For these qualifying hedges, SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, allows changes in the fair market value of these hedged instruments to be reported in accumulated other comprehensive income. The Company has assessed the effectiveness of the transactions that received hedge accounting treatment. Any ineffectiveness, which generally arises from minor differences between the terms of the swap and terms of the underlying hedged debt, would be recorded in other income, net in the statement of income. Any such differences for the three months ended March 31, 2007 and 2006 were immaterial.

During the third quarter of 2006 and the first quarter of 2007, the Company entered into swaps for a portion of its 2007 aluminum supply to fix the purchase price, and thereby substantially reduce the variability of its purchase price for this commodity. These swaps, which expire by December 31, 2007, have a notional amount of $34.9 million and a fair market value receivable of $2.0 million as of March 31, 2007. These instruments have been designated as cash flow hedges. For these qualifying hedges, SFAS No. 133 allows changes in the fair market value of these hedge instruments to be reported in accumulated other comprehensive income. The Company has assessed the effectiveness of the transactions that receive hedge accounting treatment and any ineffectiveness would be recorded in other (income) expense, net in the statement of income. The ineffectiveness for the period ended March 31, 2007 was a $0.2 million gain.

During the fourth quarter of 2006 and the first quarter of 2007, the Company entered into swaps for a portion of its 2007 copper supply to fix the purchase price, and thereby substantially reduce the variability of its purchase price for this commodity. These swaps, which expire by December 31, 2007, have a notional amount of $66.0 million and a fair market value receivable of $3.4 million as of March 31, 2007. These instruments have been designated as cash flow hedges. For these qualifying hedges, SFAS No. 133 allows changes in the fair market value of these hedge

instruments to be reported in accumulated other comprehensive income. The Company has assessed the effectiveness of the transactions that receive hedge accounting treatment and any ineffectiveness would be recorded in other income, net in the statement of income. Any such differences, for the period ended March 31, 2007 were immaterial.

8. Income Taxes

We adopted the provisions of Financial Standards Accounting Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109 (SFAS 109) on January 1, 2007. As a result of the implementation of FIN 48, we recognized an adjustment in the liability for unrecognized income tax benefits of $1.0 million which was accounted for as a reduction to the January 1, 2007, balance of retained earnings. In addition, at January 1, 2007 we reclassified $18.2 million from deferred taxes to other long-term liabilities. At March 31, 2007 we have $21.8 million of unrecognized tax benefits, of which $1.2 million would impact the effective tax rate at recognition.

We recognize interest and penalties related to uncertain tax positions in income tax expense. There is no material impact on our tax expense for the period. As of March 31, 2007, we have approximately $1.3 million of accrued interest related to uncertain tax positions.

The tax years 2004, 2005 and 2006 remain open to examination by the major taxing jurisdictions to which we are subject. One of our subsidiaries is currently under audit by the Internal Revenue Service for the nine day period ended December 31, 2004.

The effective tax rate for the three months ended March 31, 2007 and March 31, 2006 was 33.8% and 37.0%, respectively. The effective tax rate was lower primarily as a result of recent federal legislative changes that permitted the Company to take a deduction for qualified domestic production activity income.

A reconciliation between the provision for income taxes and income taxes computed by applying the statutory rate is as follows (in thousands):

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Tax provision at the statutory rate of 35%	$ 2,448	$ 4,675
Add (deduct):		
State income tax	273	267
Domestic production activities deduction	(124)	
Interest related to uncertain tax positions	122	
Other permanent differences	(147)	
Prior year permanent differences	(208)	
	$ 2,364	$ 4,942

9. 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 did not make any contributions to the plan during the first quarter of 2007. The Company will make contributions to the plan during 2007 of approximately $2.9 million beginning in the second quarter of 2007.

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Service cost	$ 202	$ 186
Interest cost	436	410
Expected return on plan assets	(535)	(460)
Amortization of prior service cost	20	20
Net periodic benefit cost	$ 123	$ 156

10. Contingent Liabilities

In October 2003, the Consumer Product Safety Commission staff issued a preliminary determination that a discontinued design of certain Package Terminal Air Conditioner/Heat Pump (PTAC) units manufactured by one of the Company s subsidiaries presents a substantial product hazard under the Consumer Product Safety Act, requiring corrective action. In September of 2004, the Company implemented a voluntary corrective action plan (CAP) under which the Company will provide a new thermal limit switch to commercial/institutional PTAC owners. Installation of such switch will be at the commercial/institutional owners expense, except in special and limited circumstance (e.g., financial hardship, etc.). Under the CAP, the Company agreed to pay the cost of installing the replacement switch for any individual homeowner having a PTAC unit in their residence. The Company has established a reserve that it believes to be adequate with respect to this matter based on current evaluations and its experience in these types of matters. Nevertheless, future developments could require material changes in the recorded reserve amount.

The costs required to recall or rework any defective products could be material, which may have a material adverse effect on our business. In addition, our reputation for safety and quality is essential to maintaining our market share. Any recalls or rework may adversely affect our reputation as a manufacturer of quality, safe products and could have a material adverse effect on our results of operation.

In December 2001, over 70 Hispanic workers filed suit against certain subsidiaries of the Company in the U.S. District Court for the Southern District of Texas alleging employment discrimination, retaliation, and violations of the Fair Labor Standards Act. The Equal Employment Opportunity Commission has since intervened in the lawsuit on the plaintiffs behalf. The Company s insurer agreed to defend the Company against these allegations and indemnify the Company for any pecuniary losses incurred. In January 2007, the parties entered into agreements which resolved the claims alleged in the lawsuit. The settlement did not have a material adverse effect on the Company s business. The settlement resolved the litigation and resulted in a dismissal of the lawsuit and a release of all claims alleged.

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 product liability, product warranty and environmental claims. In light of these potential liabilities, the Company purchased insurance that the Company expects will shield it from incurring material costs for such potential claims.

Pursuant to a March 15, 2001 Consent Order with the Florida Department of Environmental Protection, (FDEP), Pioneer Metals Inc., our subsidiary (Pioneer), is continuing to investigate and pursue, under FDEP oversight, the delineation of groundwater contamination at and around the Pioneer 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 which 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.

Based on analyses of currently available information it is probable that costs associated with the site will be $1.0 million. Therefore, we have reserved approximately $1.0 million as of March 31, 2007, although it is possible, based on current estimates that costs could exceed this amount by up to approximately $2.8 million. Management believes any liability arising from potential environmental obligations is not likely to have a material adverse effect on

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our 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.

Notably, this contamination predated Pioneer s involvement with the Fort Pierce facility and Pioneer has not caused or contributed to the contamination. Accordingly, Pioneer is pursuing litigation against former owners of the Fort Pierce facility in an attempt to recover its costs. At this time we cannot estimate probable recoveries from this litigation.

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.

Item 2. 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 contain forward-looking statements. Although forward-looking statements reflect management s good faith beliefs, they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the impact of general economic conditions in the regions in which we do business; general industry conditions, including competition and product, raw material and energy prices; the realization of expected tax benefits; changes in exchange rates and currency values; capital expenditure requirements; access to capital markets and the risks and uncertainties described in our Annual Report on Form 10-K, as filed on March 30, 2007, section labeled, Risk Factors.

Overview

We participate in the heating, ventilation and air conditioning, or HVAC, industry. We are the second largest domestic manufacturer of residential and light commercial heating and air conditioning products based on unit sales. Founded in 1975 as a manufacturer of flexible duct, we expanded into the broader HVAC manufacturing market in 1982. Since then, we have continually expanded our product offerings and maintained our core competency of manufacturing quality products at low costs. Our growth and success can be attributed to our strategy of providing a quality, competitively priced product that is designed to be reliable and easy-to-install.

Acquisition

On December 23, 2004, we were acquired by affiliates of Apollo Management, L.P., or Apollo, our senior management and certain trusts associated with members of the Goodman family. We refer to this transaction as the Acquisition . In connection with the Acquisition, Goodman Global Holdings, Inc., a Texas corporation, which we refer to as the Seller, sold all of its equity interest in its subsidiaries as well as substantially all of its assets and liabilities for $1,477.5 million plus a working capital adjustment of $29.8 million. The Acquisition was financed with the net proceeds of a private offering of senior unsecured notes, borrowings under our senior secured credit facilities and $477.5 million of equity contributions by affiliates of Apollo, the Goodman family trusts and certain members of senior management, which consisted of $225.0 million of our Series A Preferred Stock and $252.5 million of our common stock. In connection with the Acquisition, the Goodman family trusts and members of senior management invested approximately $101.0 million and $18.2 million, respectively.

The Acquisition was recorded as of December 23, 2004, in accordance with Statement of Financial Accounting Standard, or SFAS, No. 141, *Business Combinations*, and Emerging Issues Task Force, or EITF, 88-16, *Basis in Leveraged Buyout Transactions*. As such, the acquired assets and assumed liabilities have been recorded at fair value for the interests acquired and preliminary estimates of assumed liabilities by the new investors and at the carrying basis for continuing investors. The acquired assets and assumed liabilities were assigned new book values in the same proportion as the residual interests of the continuing investors and the new interests acquired by the new investors. Under EITF 88-16, we revalued the net assets at the acquisition date to the extent of the new investors ownership of 79%. The remaining 21% ownership was accounted for at the continuing investors carrying basis of the company. An adjustment of $144.6 million to record this effect was included as a reduction of shareholders equity. The excess of the purchase price over the historical basis of the net assets acquired was applied to adjust net assets

to their fair market values to the extent of the new investors 79% ownership, with the remainder of $391.3 million allocated to goodwill. The increase in basis of the assets will result in non-cash charges in future periods, principally related to the step-up in the value of property, plant and equipment and intangible assets.

Markets and Sales Channels

We manufacture and market an extensive line of heating, ventilation and air conditioning products for the residential and light commercial markets in the United States and Canada. These products include split-system air conditioners and heat pumps, gas furnaces, package units, air handlers, package terminal air conditioners, evaporator coils, flexible duct and accessories. Essentially all of our products are manufactured and assembled at facilities in Texas, Tennessee, Florida and Arizona and are distributed through approximately 800 distribution points across North America.

Our products are manufactured and marketed primarily under the Goodman®, Amana® and Quietflex® brand names. We position Goodman as a leading residential and light commercial HVAC brand in North America and as the preferred brand for high-quality HVAC equipment at low prices. Our premium Amana branded products include enhanced features such as higher efficiency and quieter operation. The Amana brand is positioned as the great American brand that outlasts the rest, highlighting durability and long-life. Quietflex branded products include flexible duct products that are used primarily in residential HVAC markets.

Our customer relationships include independent distributors, installing dealers, national homebuilders and other national accounts. We sell to dealers primarily through our network of independent distributors and company-operated distribution centers. We focus the majority of our marketing on dealers who install residential and light commercial HVAC products. We believe that the dealer is the key participant in a homeowner s purchasing decision as the dealer is the primary contact for the end user. Given the strategic importance of the dealer, we remain committed to enhancing profitability for this segment of the supply chain while allowing our distributors to achieve their own profit goals. We believe the ongoing focus on the dealer creates loyalty and mutually beneficial relationships between distributors, dealers and us.

Weather, Seasonality and Business Mix

Weather patterns have historically impacted the demand for HVAC products. For example, hot weather in the spring season causes existing older units to fail earlier in the season, driving customers to accelerate replacement of a unit, which might otherwise be deferred in the case of a late season failure. Similarly, unseasonably mild weather diminishes customer demand for both commercial and residential HVAC replacement and repairs. Weather also impacts installation during periods of inclement weather as fewer units are installed due to dealers being delayed or forced to shut down their operations.

Although there is demand for our products throughout the year, in each of the past three years approximately 56% to 58% of our total sales occurred in the second and third quarters of the fiscal year. Our peak production occurs in the first and the second quarters in anticipation of our peak sales quarters.

Costs

The principal elements of cost of goods sold in our manufacturing operations are component parts, raw materials, factory overhead, labor, transportation costs and warranty. The principal component parts, which, depending on the product, can approach up to 40% of our cost of goods sold, are compressors and motors. We have long-standing relationships with high-quality component suppliers. The principal raw materials used in our processes are steel, copper and aluminum. In total, we spent over $357.0 million in 2006 on these raw materials and their cost variability can have a material impact on our results of operations. Shipping and handling costs associated with sales are recorded at the time of the sale. Warranty expense, which is also recorded at the time of sale, is estimated based on historical trends such as incident rates, replacement costs and other factors.

Commodity costs have continued to increase. To address these increases, we increased prices in the second and fourth quarters of 2006 with respect to certain of our products. We believe our price increases will allow us to recapture lost profit margin. A continued high level of commodity prices or a further increase in commodity prices could have a material adverse effect on our results of operations. There can be no assurance that our price increases will not affect demand for our products.

During the third quarter of 2006 and the first quarter of 2007, the Company entered into swaps for a portion of its 2007 aluminum supply to fix the purchase price, and thereby substantially reduce the variability of its purchase price for this commodity. These swaps, which expire by December 31, 2007, have a notional amount of $34.9 million and a fair market value receivable of $2.0 million as of March 31, 2007. These instruments have been designated as cash flow hedges. For these qualifying hedges, SFAS No. 133 allows changes in the fair market value of these hedge

instruments to be reported in accumulated other comprehensive income. The Company has assessed the effectiveness of the transactions that receive hedge accounting treatment and any ineffectiveness would be recorded in other (income) expense, net in the statement of income. The ineffectiveness for the period ended March 31, 2007 was a $0.2 million gain.

During the fourth quarter of 2006 and the first quarter of 2007, the Company entered into swaps for a portion of its 2007 copper supply to fix the purchase price, and thereby substantially reduce the variability of its purchase price for this commodity. These swaps, which expire by December 31, 2007, have a notional amount of $66.0 million and a fair market value receivable of $3.4 million as of March 31, 2007. These instruments have been designated as cash flow hedges. For these qualifying hedges, SFAS No. 133 allows changes in the fair market value of these hedge instruments to be reported in accumulated other comprehensive income. The Company has assessed the effectiveness of the transactions that receive hedge accounting treatment and any ineffectiveness would be recorded in other income, net in the statement of income. Any such differences, for the period ended March 31, 2007 were immaterial.

Our selling, general and administrative expenses consist of costs incurred to support our marketing, distribution, engineering, information systems, human resources, finance, purchasing, risk management, legal and tax functions. We have historically operated at relatively low levels of SG&A expense as a percentage of sales compared to other large industry participants. Savings from this lean overhead structure allow us to offer an attractive value proposition to our distributors and support our low-priced philosophy throughout the distribution system.

Depreciation expense is primarily impacted by capital expenditure levels. Equipment is depreciated on a straight line method over the assets remaining useful lives. Under the rules of purchase accounting, we have adjusted the value of our assets and liabilities to their respective estimated fair values, to the extent of the new investors ownership in connection with the Acquisition, with any excess of the purchase price over the fair market value of the net assets acquired allocated to goodwill. As a result of these adjustments to our asset basis, our depreciation and amortization expenses increased.

Interest expense, net consists of interest expense, net of interest income and gains or losses on the related interest rate derivative instruments. In addition, interest expense includes the amortization of the financing costs associated with the Acquisition.

Other income (expense), net consists of gains and losses on the disposals of assets, any ineffectiveness related to derivative instruments and miscellaneous income or expense.

Income taxes

The Seller and most of its subsidiaries historically elected S corporation or partnership status for income tax purposes. Accordingly, most income in the historical periods was taxed directly to the Seller s shareholders. The Seller typically made cash distributions to its shareholders to pay those taxes. Following the Transactions, we are taxed at the corporate level and we will be recording an income tax obligation at a rate comparable to the federal and state statutory rates, which we estimate will be approximately 38.5%. As a result of the Transactions, there was a significant step-up in the book basis of our assets. We believe that for a majority of the step-up in basis, we will receive tax deductions, significantly reducing our cash tax payments from what they would have been without such deductions. It is also expected that a substantial portion of the goodwill recorded in the acquisition will be deductible for income tax purposes.

At March 31, 2007, we had a valuation allowance of $3.4 million against certain net operating loss carryforwards. We believe that the remaining deferred tax assets at March 31, 2007, amounting to $67.0 million, are realizable through carrybacks, future reversals of existing taxable temporary differences, and future taxable income. Uncertainties that affect the ultimate realization of deferred tax assets include the risk of not having future taxable income. These factors have been considered in determining the valuation allowances.

The accounting treatment for recorded tax assets associated with the deductions from the step-up in the tax basis and our other tax positions reflect our judgment that it is more likely than not that our positions will be respected and the recorded assets will be realized. However, if such positions are challenged, then, to the extent they are not sustained, the expected benefits of the recorded assets and tax positions will not be fully realized.

Critical Accounting Policies and Estimates

Preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates that affect reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Many of the estimates require us to make significant judgments and assumptions. Actual results could differ from our estimates and could have a

significant impact on our consolidated results of operations, financial position and cash flows. We have discussed our most significant estimates and judgments in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. As noted below under the heading Recent Accounting Pronouncements , we adopted FIN 48 effective January 1, 2007. FIN 48 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect our operating results. Other than the adoption of FIN 48, our critical accounting policies and estimates and the methodologies and assumptions we apply under them have not materially changed since the date of our December 31, 2006 Annual Report on Form 10-K.

Results of Operations

The following table sets forth, as a percentage of net sales, our statement of operations data for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	**2006**
Consolidated statement of operation data:		
Sales, net	**100.0%**	100.0%
Cost of goods sold	**79.7%**	77.4%
Selling, general and administrative expenses	**12.1%**	12.0%
Depreciation and amortization	**2.2%**	2.0%
Operating profit	**6.0%**	8.6%
Interest expense, net	**4.4%**	5.2%
Other income, net	**(0.3)%**	(0.1)%
Earnings before taxes	**1.8%**	3.5%
Provision for income taxes	**0.6%**	1.3%
Net income	**1.2%**	2.2%

Three Months Ended March 31, 2007 Compared to March 31, 2006

Sales, net. Net sales for the three months ended March 31, 2007, were $380.3 million, a $0.4 million decrease from $380.7 million for the three months ended March 31, 2006. Sales volume for the three months ended March 31, 2007 was 14% lower than the same period in the previous year, primarily as a result of the decline in the residential new construction market and the early mild weather conditions. This decrease was partially offset by the contributions from new Company-operated distribution centers that were opened in 2006 and 2005, 10 and 17, respectively, and the maturing of the 22 Company-operated distribution centers opened in 2004. In addition, we benefited from sales and promotional efforts initiated prior to and in the first quarter. The remainder of the decrease in volume was almost entirely offset by pricing-related gains, due to the shift to a higher proportion of higher-priced 13-and higher-SEER product and the benefit of our April 1 and October 1, 2006 price increases.

Cost of goods sold. Cost of goods sold for the three months ended March 31, 2007, was $303.3 million, a $8.6 million, or 2.9%, increase from $294.6 million for the three months ended March 31, 2006. This increase resulted from higher commodity costs related primarily to copper and aluminum. Cost of goods sold as a percentage of net sales increased from 77.4% for the three months ended March 31, 2006 to 79.7% for the three months ended March 31, 2007. This increase in cost of goods sold as a percentage of net sales was attributable to higher commodity costs and the fixed nature of some of our manufacturing costs partially offset by the two price increases implemented in 2006.

Selling, general and administrative expenses. Selling, general and administrative expenses for the three months ended March 31, 2007, were $45.9 million, a $0.2 million, or 0.6%, increase from $45.7 million for the three months ended March 31, 2006. As a percentage of net sales, selling, general and administrative expenses were 12.1% and 12.0% for the three months ended March 31, 2007 and March 31, 2006, respectively. Selling, general and administrative expenses for the three months ended March 31, 2006 included monitoring fees associated with the management consulting agreement entered into with Apollo in connection with the Acquisition. This arrangement terminated in April of 2006 as a result of our initial public offering. Excluding these fees, the three months ended March 31, 2006 had selling, general and administrative fees as a percentage of net sales of 11.8%. Our costs during the three months ended March 31, 2007 reflected costs associated with the net addition of 5 new Company-operated distribution locations, additional Company-operated sales personnel and additional expenses as a result of operating as a public company.

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Depreciation and amortization. Depreciation and amortization for the three months ended March 31, 2007, was $8.3 million, a $0.9 million, or 11.5% increase from $7.5 million for the three months ended March 31, 2006. The increase was primarily due to higher depreciation expense related to capital expenditures associated with the transition to the federally mandated 13 SEER minimum efficiency requirements and capacity expansion at our production facilities.

Operating profit. Operating profit for the three months ended March 31, 2007, was $22.8 million, a $10.2 million, or 30.9%, decrease from the operating profit of $32.9 million reported for the three months ended March 31, 2006. Operating profit for the three months ended March 31, 2007 was negatively impacted by higher commodity costs, partially offset by the benefit of our two price increases.

Interest expense, net. Interest expense for the three months ended March 31, 2007, was $16.9 million, a decrease of $2.8 million from $19.7 million reported for the three months ended March 31, 2006. Interest expense decreased due to the decrease in the amount of debt outstanding, offset by higher interest rates. The outstanding long-term debt balance as of March 31, 2007 was $837.5 million compared to $960.5 as of March 31, 2006.

Other income. Other income for the three months ended March 31, 2007 was $1.1 million, an increase of $0.9 million from $0.2 million reported for the three months ended March 31, 2006. This increase was mainly the result of a $0.6 million gain on the sale of a building and associated land used in our Company-operated distribution network.

Provision for income taxes. The income tax provision for the three months ended March 31, 2007, was $2.4 million, a decrease of $2.6 million compared to $4.9 million for the three months ended March 31, 2006. The decrease in the provision for income taxes was due to the decreased pre-tax income generated in the first quarter of 2007 and the benefit of the domestic production activities deduction in 2007. The effective tax rate for the three months ended March 31, 2007 and March 31, 2006, was 33.8% and 37.0%, respectively.

Liquidity, Capital Resources and Off-balance Sheet Arrangements

As of March 31, 2007, we had cash and cash equivalents of $8.1 million and working capital of $371.5 million, excluding current maturities of long-term debt of $3.5 million, and the ability to borrow $141.7 million under our revolving credit facility. We have funded, and expect to continue to fund, operations through cash flows generated by operating activities and borrowings under our revolving credit facility. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our senior secured credit facilities, will be adequate to meet our short-term and long-term liquidity needs over the next 12 to 24 months. Our future liquidity requirements will be for working capital, capital expenditures and general corporate purposes.

Operating activities. For the three months ended March 31, 2007, we provided $2.4 million of cash from operations compared to $39.0 million of cash used in operations for the three months ended March 31, 2006. Cash from operations for the three months ended March 31, 2007 was impacted by lower net income and higher accounts receivable as a result of the timing of our sales in the quarter compared to the prior year, offset by increases in accounts payable and accrued expenses. Cash from operations for the three months ended March 31, 2006 was negatively impacted by higher inventory as a result of the industry shift to 13 SEER minimum efficiency products, offset by higher net income and increases in accounts payable and accrued expenses.

Investing activities. For the three months ended March 31, 2007, cash used in investing activities was $5.0 million compared to $11.5 million for the three months ended March 31, 2006. This usage was primarily due to capital expenditures of $10.3 million and $11.7 million for the three months ended March 31, 2007 and 2006, respectively. For the three months ended March 31, 2007, these capital expenditures were offset by the proceeds of $5.3 million from the sale of a building and associated land used in our Company-operated distribution network.

Financing activities. For the three months ended March 31, 2007, we used $0.9 million from financing activities compared to $33.1 million provided by financing activities for the three months ended March 31, 2006. Financing activities for the three months ended March 31, 2007 included the payment of long-term debt of $0.9 million. Financing activities for the three months ended March 31, 2006 included $34.0 million borrowed under the revolving credit facility offset by the payment of long-term debt of $0.9 million. Amounts borrowed under the revolving credit facility during the three months ended March 31, 2006, were used to meet our increased working capital needs resulting from increased production in anticipation of our peak-cooling season and higher costs of inventory due to the 13 SEER minimum efficiency shift.

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Recent Accounting Pronouncements

We adopted the provisions of Financial Standards Accounting Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes or FIN 48 an interpretation of FASB Statement No. 109 or SFAS 109, on January 1, 2007. As a result of the implementation of FIN 48, we recognized an adjustment in the liability for unrecognized income tax benefits of $1.0 million which was accounted for as a reduction to the January 1, 2007, balance of retained earnings. In addition, we reclassified $16.7 million from deferred taxes to other long-term liabilities. At March 31, 2007 we have $21.8 million of unrecognized tax benefits. Subject to future interpretations, we believe our unrecognized tax benefits will increase in future periods.

We recognize interest and penalties related to uncertain tax positions in income tax expense. There is no material impact on our effective tax rate for the period. As of March 31, 2007, we have approximately $1.3 million of accrued interest related to uncertain tax positions.

The tax years 2004, 2005 and 2006 remain open to examination by the major taxing jurisdictions to which we are subject. One of our subsidiaries is currently under audit by the Internal Revenue Service for the nine day period ended December 31, 2004.

In September 2006, the FASB issued Statement No. 157, or SFAS 157, *Fair Value Measurements*, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. As a result of SFAS 157, there is now a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the requirements of the standard and have not yet determined the impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the first quarter of 2007, one of our interest rate swap instruments with a notional amount of $150.0 million matured based on its terms.

During the third quarter of 2006 and the first quarter of 2007, the Company entered into swaps for a portion of its 2007 aluminum supply to fix the purchase price, and thereby substantially reduce the variability of its purchase price for this commodity. These swaps, which expire by December 31, 2007, have a notional amount of $34.9 million and a fair market value receivable of $2.0 million as of March 31, 2007. These instruments have been designated as cash flow hedges. For these qualifying hedges, SFAS No. 133 allows changes in the fair market value of these hedge instruments to be reported in accumulated other comprehensive income. The Company has assessed the effectiveness of the transactions that receive hedge accounting treatment and any ineffectiveness would be recorded in other (income) expense, net in the statement of income. The ineffectiveness for the period ended March 31, 2007 was a $0.2 million gain.

During the fourth quarter of 2006 and the first quarter of 2007, the Company entered into swaps for a portion of its 2007 copper supply to fix the purchase price, and thereby substantially reduce the variability of its purchase price for this commodity. These swaps, which expire by December 31, 2007, have a notional amount of $66.0 million and a fair market value receivable of $3.4 million as of March 31, 2007. These instruments have been designated as cash flow hedges. For these qualifying hedges, SFAS No. 133 allows changes in the fair market value of these hedge instruments to be reported in accumulated other comprehensive income. The Company has assessed the effectiveness of the transactions that receive hedge accounting treatment and any ineffectiveness would be recorded in other income, net in the statement of income. Any such differences, for the period ended March 31, 2007 were immaterial.

We continue to monitor and evaluate the prices of our principal raw materials and may decide to enter into other hedging arrangements in the future.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, or the Exchange Act) that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely

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decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Our Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or our internal controls will prevent all error and all fraud. The design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be considered relative to their cost. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that we have detected all of our control issues and all instances of fraud, if any. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions.

In our Form 10-K filed on March 30, 2007 it was disclosed that our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2006 solely as a result of our 2006 commodity derivatives that did not qualify for hedge accounting. As a result, some of the 2006 quarters were restated to reflect the changes in fair value of those derivatives in other (income) expense, net. Subsequent to the filing of our Form 10-K, the Company has implemented additional controls related to our derivative contracts in order to increase the effectiveness of the disclosure controls and procedures related to derivatives.

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Part II. Other Information

Item 1. Legal Proceedings

There have been no material developments in the quarterly period ending March 31, 2007 to the proceedings described in our Form 10-K, as filed on March 30, 2007. See Note 10 of the Notes to the Consolidated Condensed Financial Statements for the discussion on legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the disclosure related to risk factors made in our Form 10-K, as filed on March 30, 2007.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

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Item 6. Exhibits

31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GOODMAN GLOBAL, INC.

Date: May 10, 2007

/s/ Lawrence M. Blackburn
Lawrence M. Blackburn

Executive Vice President and

Chief Financial Officer

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