Goodman Global Inc
Form 10-Q/A
April 05, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark one)

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

For the quarterly period ended June 30, 2006

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 **(State or other jurisdiction of** **incorporation or organization)**	**20-1932219** **(I.R.S. Employer** **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 x 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 x

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 August 9, 2006, the number of shares outstanding of the registrant s common stock, par value $0.01 per share, was 68,900,859.

Table of Contents

Explanatory Note

This Form 10-Q/A amends the Company s quarterly report on Form 10-Q for the quarter ended June 30, 2006, which was filed on August 10, 2006. The amendment is a result of the restatement of the Company s condensed consolidated financial statements and related financial information for the quarterly periods ended June 30, 2006 and 2005.

The Company is restating its previously filed financial statements and other financial information for the above referenced periods to correct an error related to the Company s derivative accounting treatment under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended. This error and its effects are described in more detail in Note 2 to the Consolidated Condensed Financial Statements included in Item 1 - Financial Statements.

The Company is also filing an amended Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 to correct the error described above.

All of the information in this Form 10-Q/A is as of August 10, 2006, the date the Company originally filed its Form 10-Q with the Securities and Exchange Commission, and does not reflect any subsequent information or events other than the restatement discussed in Note 2 to the Consolidated Condensed Financial Statements appearing in this Form 10-Q/A. For more recent information, please see the Company s annual report on Form 10-K for the fiscal year ended December 31, 2006. For the convenience of the reader, this Form 10-Q/A sets forth the originally filed Form 10-Q in its entirety. However, the following items have been amended solely as a result of, and to reflect, the restatement, and no other information in the Form 10-Q/A is amended hereby as a result of the restatement:

Part I, Item 1 - Financial Statements

Part I, Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 4 - Controls and Procedures

Part II, Item 6 - Exhibits

The Company is including currently dated Sarbanes-Oxley Act Section 302 and Section 906 certifications of the Chief Executive Officer and Chief Financial Officer that are attached to this Form 10-Q/A as Exhibits 31.1, 31.2 and 32.1.

Table of Contents

GOODMAN GLOBAL, INC.

Form 10-Q

For the Three and Six Months Ended June 30, 2006

Index

3

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

Goodman Global, Inc.

Consolidated Condensed Balance Sheets

	June 30, 2006 (restated, see Note 2) (unaudited)	December 31, 2005
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,317**	$ 23,779
Restricted cash	**2,600**	2,600
Accounts receivable, net of allowance for doubtful accounts ($8.8 million in 2006; $7.8 million in 2005)	**281,550**	220,123
Inventories	**377,255**	303,295
Deferred tax assets	**19,434**	14,089
Other current assets	**19,310**	12,786
Total current assets	**707,466**	576,672
Property, plant, and equipment, net	**163,317**	160,549
Goodwill	**391,287**	391,287
Identifiable intangibles	**412,004**	416,437
Deferred tax assets	**41,787**	46,235
Deferred financing costs	**25,319**	30,357
Total assets	**$ 1,741,180**	$ 1,621,537
Liabilities and shareholders equity		
Current liabilities:		
Trade accounts payable	**$ 167,817**	$ 156,870
Accrued warranty	**59,376**	58,068
Other accrued expenses	**86,933**	105,341
Current portion of long-term debt	**3,500**	3,500
Total current liabilities	**317,626**	323,779
Long-term debt, less current portion	**885,425**	957,875
Revolving credit facility	**61,800**	
Other long-term liabilities	**5,941**	6,498
Preferred stock, 9.5% Series A cumulative, par $.01, 250,000 authorized, 225,570 issued and outstanding as of December 31, 2005		225,570
Common stock, par value $.01, 275,000,000 shares authorized, 68,900,859 and 47,972,166 issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	**689**	480
Accumulated other comprehensive income (loss)	**(691)**	2,088
Additional paid-in capital	**461,796**	108,073
Retained earnings (deficit)	**8,594**	(2,826)

Total shareholders equity	**470,388**	107,815
Total liabilities and shareholders equity	**$ 1,741,180**	$ 1,621,537

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

4

Table of Contents

Goodman Global, Inc.

Consolidated Condensed Statements of Income

	Three Months Ended June 30, 2006 (restated, see Note 2)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006 (restated, see Note 2)	Six Months Ended June 30, 2005
	(unaudited, in thousands, except share and per share data)			
Sales, net	**$ 504,454**	$ 421,134	**$ 885,142**	$ 717,441
Costs and expenses:				
Cost of goods sold	**388,038**	324,930	**682,674**	592,830
Selling, general, and administrative expenses	**64,682**	42,077	**110,341**	79,534
Depreciation expense	**5,781**	4,301	**11,017**	8,545
Amortization expense	**2,216**	2,400	**4,433**	4,800
Operating profit	**43,737**	47,426	**76,677**	31,732
Interest expense, net	**21,899**	18,590	**41,640**	36,724
Other (income) expense, net	**6,325**	307	**6,168**	(387)
Earnings (losses) before taxes	**15,513**	29,143	**28,869**	(4,605)
Provision for (benefit from) income taxes	**5,885**	11,015	**10,827**	(1,773)
Net income (loss)	**$ 9,628**	$ 18,128	**$ 18,042**	$ (2,832)
Less: Preferred stock dividends	**730**	5,544	**6,622**	10,889
Net income (loss) available to common shareholders	**$ 8,898**	$ 12,584	**$ 11,420**	$ (13,721)
Net income (loss) per share:				
Basic	**$ 0.13**	$ 0.26	**$ 0.20**	$ (0.29)
Diluted	**$ 0.13**	$ 0.26	**$ 0.19**	$ (0.29)
Average outstanding common shares:				
Basic	**68,897,155**	47,931,770	**58,434,673**	47,891,349
Diluted	**70,796,111**	47,931,770	**60,291,940**	47,891,349

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

5

Table of Contents

Goodman Global, Inc.

Consolidated Condensed Statements of Shareholders Equity

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Com- prehensive Income (Loss)	Total
	(unaudited, in thousands)				
	(restated, see note 2)				
Balance at December 31, 2005	**$ 480**	**$ 108,073**	**$ (2,826)**	**$ 2,088**	**$ 107,815**
Net income			18,042		18,042
Foreign currency translation				836	836
Change in fair value of derivatives, net of tax				(3,615)	(3,615)
Comprehensive income					15,263
Issuance of stock	209	352,052			352,261
Accrued stock options		1,671			1,671
Preferred stock dividends			(6,622)		(6,622)
Balance at June 30, 2006	**$ 689**	**$ 461,796**	**$ 8,594**	**$ (691)**	**$ 470,388**

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

6

Goodman Global, Inc.

Consolidated Condensed Statements of Cash Flows

	Six Months Ended June 30, 2006 (restated, see note 2)	Six Months Ended June 30, 2005
	(unaudited, in thousands)	
Operating activities		
Net income	**$ 18,042**	$ (2,832)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Adjustments to goodwill		(1,058)
Depreciation	**11,017**	8,545
Amortization	**4,433**	4,800
Deferred tax provision	**(897)**	(8,152)
Unrealized loss (gain) on derivatives	**5,392**	(2,000)
Loss (gain) on disposal of assets	**87**	(267)
Amortization of inventory step-up in basis		39,586
Amortization of deferred financing costs	**5,038**	2,722
Compensation expense relating to stock options	**1,707**	
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable	**(61,427)**	(94,604)
Inventories	**(73,960)**	(59,744)
Other assets	**(6,357)**	1,464
Accounts payable and accrued expenses	**15,188**	86,036
Net cash used in operating activities	**(81,737)**	(25,504)
Investing activities		
Purchases of property, plant, and equipment	**(21,391)**	(10,465)
Other assets and liabilities		31
Proceeds from sale of assets	**13**	3,567
Net cash used in investing activities	**(21,378)**	(6,867)
Financing activities		
Repayments of long-term debt	**(72,450)**	(1,750)
Working capital adjustment		1,330
Proceeds from sale of common stock		1,210
Proceeds from initial public offering	**354,491**	
Redemption of preferred stock and accrued dividends	**(255,234)**	
Transaction costs	**(1,954)**	(304)
Net borrowings under revolving line facility	**61,800**	34,865
Net cash provided by financing activities	**86,653**	35,351
Net increase (decrease) in cash	**(16,462)**	2,980
Cash at beginning of period	**23,779**	3,856
Cash at end of period	**$ 7,317**	$ 6,836
Supplementary disclosures of cash flow information		
Cash paid during the period for:		
Interest	**$ 37,231**	$ 33,913

Income taxes	**$**	**31,804**	$	5,645
Non-cash item: Accrual for purchases of property, plant and equipment	**$**	**2,925**	$	

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

7

Table of Contents

Goodman Global, Inc.

Notes to Consolidated Condensed Financial Statements

Three and Six Months Ended June 30, 2006

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated 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 and six months ended June 30, 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 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.

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 included 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, to satisfy a $16.0 million fee resulting from the termination of the Company s management agreement with Apollo and to redeem $70.7 million of the Company s subsidiary s floating rate notes.

Effective April 4, 2006, the Company s Board of Directors approved a 7.580345-for-1 stock split of the Company s common stock. All periods presented are reflective of the effected stock split.

Table of Contents

2. Restatement

In connection with the close for the year ended December 31, 2006, the Company determined that some of its commodity derivatives did not qualify for hedge accounting and, therefore, should be marked to market through the statement of income instead of through accumulated other comprehensive income on the Company s balance sheet. The Company s previously issued financial statements for the three and six months ended June 30, 2006 have been restated to reflect the changes in the fair value of those derivatives in other (income) expense, net.

The following tables summarized the effect of the restatement adjustments on the financial statements as of and for the three and six months ended June 30, 2006 (in thousands, except for per share data).

	Three months ended June 30, 2006	
	Previously Reported	Restated
Other (income) expense, net	$ (292)	$ 6,325
Earnings (losses) before taxes	22,130	15,513
Provision for (benefit from) income taxes	8,188	5,885
Net income (loss)	13,942	9,628
Net income (loss) available to common shareholders	13,212	8,898
Basic net income per share	$ 0.19	$ 0.13
Diluted net income per share	$ 0.19	$ 0.13

	Six months ended June 30, 2006	
	Previously Reported	Restated
Other (income) expense, net	$ (449)	$ 6,168
Earnings (losses) before taxes	35,486	28,869
Provision for (benefit from) income taxes	13,130	10,827
Net income (loss)	22,356	18,042
Net income (loss) available to common shareholders	15,734	11,420
Basic net income per share	$ 0.27	$ 0.20
Diluted net income per share	$ 0.26	$ 0.19

	As of June 30, 2006	
	Previously Reported	Restated
Inventories	$ 378,023	$ 377,255
Other current assets	17,007	19,310
Total current assets	705,931	707,466
Deferred tax assets, long term	43,863	41,787
Total assets	1,741,721	1,741,180
Accumulated other comprehensive income (loss)	(4,464)	(691)
Retained earnings	12,908	8,594
Total shareholders equity	470,929	470,388
Total liabilities and shareholders equity	$ 1,741,721	$ 1,741,180

	Six months ended June 30, 2006	
	Previously Reported	Restated
Operating activities		
Net income (loss)	$ 22,356	$ 18,042
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred tax provision	(2,973)	(897)
Unrealized loss (gain) on derivatives		5,392
Inventories	(74,728)	(73,960)

Other assets	(4,054)	(6,357)
Accounts payable and accrued expenses	$ 16,807	$ 15,188

Table of Contents

3. 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 June 30, 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 June 30, 2005, this fair market value adjustment has been effectively reversed as the related inventory was sold in the first quarter of 2005 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 six months ended June 30, 2005.

Table of Contents

Inventories consist of the following (in thousands):

	June 30, 2006	December 31, 2005
Raw materials and parts	$ 34,473	$ 29,125
Finished goods	342,782	274,170
	$ 377,255	$ 303,295

Property, Plant, and Equipment

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

	June 30, 2006	December 31, 2005
Land	$ 12,162	$ 12,162
Buildings and improvements	55,627	55,465
Equipment	108,211	83,041
Construction-in-progress	15,740	27,335
	191,740	178,003
Less: Accumulated depreciation	(28,423)	(17,454)
	$ 163,317	$ 160,549

Identifiable Intangible Assets

Identifiable intangible assets as of June 30, 2006 consist of the following (in thousands):

	Gross	Accumulated Amortization & Impairment	Net
Intangible assets subject to amortization:			
Customer relationships	$ 291,560	$ 11,113	$ 280,447
Technology	15,760	2,403	13,357
Contracts	11,033	11,033	
Total intangible assets subject to amortization	318,353	24,549	293,804
Total indefinite-lived trade names	118,200		118,200
Total identifiable intangible assets	$ 436,553	$ 24,549	$ 412,004

Accrued Warranty

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

	Six Months Ended June 30, 2006	Twelve Months Ended December 31, 2005
At the beginning of the period	**$ 58,068**	$ 59,479
Current-period accruals	**18,623**	32,503
Current-period uses	**(17,315)**	(33,914)
At the end of the period	**$ 59,376**	$ 58,068

Table of Contents

Other Accrued Expenses

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

	June 30, 2006	December 31, 2005
Accrued rebates	**$ 25,835**	$ 21,682
Accrued self insurance reserves	**17,626**	17,970
Dividends payable		23,040
Other	**43,472**	42,649
	$ 86,933	$ 105,341

4. 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 June 30, 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 the 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, which will be assisted by a broker.

On February 1, 2006, the Company adopted the 2006 Incentive Award Plan (2006 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 Plan. The plan permits the grant of stock-based compensation awards to eligible employees, consultants and directors. The 2006 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 stock unit awards, performance-based awards or stock payment awards. As of June 30, 2006, approximately 11,000 shares of restricted stock have been issued under the 2006 Plan. These restricted shares may not be sold or otherwise transferred until restrictions have lapsed, which will occur one year after the date of grant. The weighted average grant date fair value of the restricted shares granted as of June 30, 2006 is $18.37. Recorded compensation costs for these shares for the three and six months ended June 30, 2006 is not material. As of June 30, 2006, 20,000 options also have been granted under this plan.

A summary of stock option activity for the six months ended June 30, 2006 follows:

	Shares	Weighted Average Exercise Price per Share
Outstanding at December 31, 2005	4,650,894	$ 6.70
Granted	20,000	$ 20.10
Exercised		

Forfeited	(12,697)	$	10.79
Outstanding at June 30, 2006	4,658,197	$	6.75

Table of Contents

The following table summarizes information about stock options outstanding as of June 30, 2006 (in thousands, except share and per share data):

	Options Outstanding				Options Exercisable			
Range of Exercise Prices Per Share	Number Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
$5.28 - $21.80	4,658,197	8.7	$ 6.75	$ 39,284	979,280	8.5	$ 5.28	$ 9,698

A summary of the status of the Company s nonvested stock options as of June 30, 2006 and changes during the six months ended June 30, 2006 is presented below:

	Shares	Weighted Average Grant Date Fair Value per Share
Nonvested at December 31, 2005	3,671,614	$ 1.88
Granted	20,000	$ 8.21
Exercised		
Forfeited	(12,697)	$ 2.23
Nonvested at June 30, 2006	3,678,917	$ 1.91

Prior to January 1, 2006, the Company accounted for stock-based compensation under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations (APB No. 25) and had adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), *Accounting for Stock-Based Compensation*, as amended. Under APB No. 25, no stock-based compensation cost was reflected in net income for grants of stock options to employees because the Company grants stock options with an exercise price equal to the estimated market value of the stock on the date of grant. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment,* using the modified-prospective-transition method. Under this transition method, compensation cost recognized in 2006 includes: (a) compensation costs for all share-based payments granted prior to, but not yet vested as of the date of adoption based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to the date of adoption will be based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). In accordance with SFAS No. 123(R), results of prior periods have not been restated.

As a result of adopting SFAS No. 123(R), the Company recognized compensation expense of $1.1 million, ($0.7 million after tax) and $1.7 million ($1.1 million after tax), during the three month and six months ended June 30, 2006, respectively, which is included in selling, general and administrative expenses in the accompanying unaudited statement of income for the three and six months ended June 30, 2006. Included in compensation expense for the three and six months ended June 30, 2006 discussed above, is $0.7 million related to the 381,331 stock options that vested at the consummation of the Company s initial public offering in April of 2006. The adoption had no net effect on the Company s statement of cash flows for the period ended June 30, 2006. The effect on earnings per share on both a basic and fully diluted basis was ($0.01) and ($0.02) for the three and six months ended June 30, 2006, respectively.

The effect on net income and earnings per share, if the Company had applied the fair value recognition provisions of SFAS No. 123 to the options granted under the Company s stock option plan for the three and six months ended June 30, 2005, would have been none and $0.2 million, net of tax, respectively, and no effect on earnings per share for the three and six months ended June 30, 2005. As of January 1, 2006, the Company adopted SFAS No. 123(R) thereby eliminating pro-forma disclosure for the period subsequent to the adoption. For purposes of this disclosure, the value of the options is estimated using a Black-Scholes-Merton option valuation model and amortized to expense over the options vesting period.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton model using assumptions discussed below. The expected volatility of 20% is based mainly on the volatility of the Company s competitors. The expected term of the options granted of 8 years is based on the time period the options are expected to be outstanding. The risk-free interest rate of 4.5% is based on the U.S. Treasury rate of a note with the expected maturity of the expected term of the options. The Company has not considered a dividend payment in its calculation and believes that forfeitures will not be significant.

As of June 30, 2006, the total compensation cost related to nonvested awards not yet recognized in the statement of income of the Company is $5.4 million. This amount will be recognized on a weighted average period of 2.7 years.

5. Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
Net income (loss)	**$ 9,628**	$ 18,128	**$ 18,042**	$ (2,832)
Change in fair value of derivatives, net of tax	**(4,097)**	(842)	**(3,615)**	526
Foreign currency translation adjustment	**842**	(103)	**836**	(382)
Comprehensive income (loss)	**$ 6,373**	$ 17,183	**$ 15,263**	$ (2,688)

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

	Minimum Pension Liability	**Change in Fair Value of Derivatives**	**Foreign Currency Translation**	**Total**
December 31, 2005	$ (673)	$ 2,436	$ 325	$ 2,088
Net change through June 30, 2006		**(3,615)**	**836**	**(2,779)**
June 30, 2006	**$ (673)**	**$ (1,179)**	**$ 1,161**	**$ (691)**

6. 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 periods.

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

	Three Months Ended June 30,	**Six Months Ended June 30,**

	2006	2005	2006	2005
Numerator for earnings per share net income (loss) available to common shareholders	**$ 8,898**	$ 12,584		