

IPG PHOTONICS CORP
Form S-1/A
December 08, 2006

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As filed with the Securities and Exchange Commission on December 8, 2006

Registration No. 333-136521

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Amendment No. 6
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

IPG Photonics Corporation

(Exact name of Registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

3674

*(Primary Standard Industrial
Classification Code Number)*

04-3444218

*(I.R.S. employer identification
number)*

**50 Old Webster Road
Oxford, Massachusetts 01540
(508) 373-1100**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Valentin P. Gapontsev, Ph.D.
Chief Executive Officer and Chairman of the Board
IPG Photonics Corporation
50 Old Webster Road
Oxford, Massachusetts 01540
(508) 373-1100**

*(Name, address, including zip code, and telephone number, including
area code, of agent for service)*

Copies To:

**Robert W. Ericson, Esq.
David A. Sakowitz, Esq.
Winston & Strawn LLP
200 Park Avenue
New York, New York 10166- 4193
(212) 294-6700**

**Robert G. Day, Esq.
Wilson Sonsini Goodrich & Rosati
Professional Corporation
650 Page Mill Road
Palo Alto, California 94304- 1050
(650) 493-9300
Adam M. Dinow, Esq.
Wilson Sonsini Goodrich & Rosati
Professional Corporation**

**1301 Avenue of the Americas
New York, New York 10019
(212) 999-5800**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**Subject to Completion
Preliminary Prospectus dated _____, 2006**

PROSPECTUS

**9,000,000 Shares
Common Stock**

This is IPG Photonics Corporation's initial public offering of its common stock. We are offering 6,241,379 shares of common stock. The selling stockholders named in this prospectus, including our chairman and chief executive officer, two other members of our board of directors and entities affiliated with Merrill Lynch & Co., one of the underwriters participating in this offering, are offering an additional 2,758,621 shares of common stock. We expect the public offering price to be between \$13.50 and \$15.50 per share.

Currently, no public market exists for our common stock. Our common stock has been approved for quotation on the Nasdaq Global Market under the symbol IPGP.

**Investing in our common stock involves risks that are described in the
Risk Factors section beginning on page 7 of this prospectus.**

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to IPG Photonics	\$	\$
Proceeds, before expenses, to selling stockholders	\$	\$

The underwriters may also purchase up to an additional 1,350,000 shares of common stock from the selling stockholders at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about _____, 2006.

Merrill Lynch & Co.

Lehman Brothers

Needham & Company, LLC

Jefferies & Company

Thomas Weisel Partners LLC

The date of this prospectus is _____, 2006.

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You should rely only on the information contained in this prospectus or any free writing prospectus prepared by or on behalf of us. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

In this prospectus, references to IPG Photonics, our company, we, us and our refer to IPG Photonics Corporation and its consolidated subsidiaries, except where the context otherwise indicates.

The market and industry data and forecasts included in this prospectus are based upon independent industry sources, including Strategies Unlimited and Frost & Sullivan. Although we believe that these independent sources are reliable, we have not independently verified the accuracy and completeness of this information, nor have we independently verified the underlying economic assumptions relied upon in preparing any data or forecasts.

Through and including _____, 2006 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including our financial statements and the related notes and the risks of investing in our common stock discussed under Risk Factors, before making an investment decision.

IPG Photonics Corporation

Overview

We are the leading developer and manufacturer of a broad line of high-performance fiber lasers for diverse applications in numerous markets. Since our founding in 1990, we have pioneered the development and commercialization of optical fiber-based lasers. Fiber lasers are a new generation of lasers that combine the advantages of semiconductor diodes, such as their long life and high efficiency, with the high amplification and precise beam qualities of specialty optical fibers to deliver superior performance, reliability and usability at a generally lower total cost of ownership compared to CO₂ and crystal lasers. Our products are displacing traditional lasers in many current applications and enabling new applications for lasers. Our vertically integrated operations allow us to rapidly develop and integrate advanced products, protect our proprietary technology and ensure access to critical components while reducing manufacturing costs.

Our diverse lines of low, mid and high-power lasers and amplifiers are used in materials processing, communications, medical and advanced applications. For the year ended December 31, 2005, we reported net sales of \$96.4 million and net income of \$7.4 million. For the nine months ended September 30, 2006, we reported net sales of \$101.1 million and net income of \$12.6 million.

Our headquarters and manufacturing facilities are located in Oxford, Massachusetts. We have additional manufacturing facilities in Germany, Russia and Italy, and regional sales offices in the United States, Japan, South Korea, India and the United Kingdom.

Industry Background

Historically, CO₂ gas lasers and crystal lasers have been the two principal laser types used in materials processing and many other applications. A CO₂ laser produces light by electrically stimulating a gas-filled tube, while a crystal laser uses a lamp, diode stack or array to optically pump a special crystal. Traditional lasers have a number of disadvantages and limitations, including low beam quality, low reliability, limited output powers and wavelength choices, high energy consumption, large size, lack of mobility, the need for expensive replacement parts and complex cooling and maintenance requirements. In addition, the operating parameters of traditional lasers are difficult to control precisely.

We believe that fiber lasers represent a disruptive technology, a technology that has the potential to displace traditional laser technologies and processes because it constitutes a fundamental shift, not merely an incremental advance, in laser technology. Fiber lasers use semiconductor diodes as the light source to pump specialty optical fibers, which are infused with rare earth ions. The laser emission is created within optical fibers and delivered through a flexible cable. Over the last several years, technological improvements in active optical fibers, semiconductor diodes and other optical components have resulted in performance improvements and increases in cost effectiveness, reliability and output power levels of fiber lasers. As a result, fiber lasers have gained market share by replacing traditional lasers in existing laser applications and enabling new applications by addressing customer needs that are not met by traditional lasers and non-laser processes. We believe that fiber lasers provide a combination of benefits that include:

Superior Performance. Fiber lasers provide high beam quality over the entire power range.

Lower Total Cost of Ownership. Fiber lasers offer strong value to customers because of their generally lower total operating costs due to their lower required maintenance costs, high reliability and energy efficiency.

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Ease of Use. The all solid-state design and integrated fiber delivery of fiber lasers make them easy to operate, maintain and integrate into laser-based systems.

Compact Size and Portability. Fiber lasers are typically smaller and lighter than traditional lasers, and their portability and versatility allow them to be used in new laser applications.

Choice of Wavelengths and Precise Control of Beam. The design of fiber lasers generally provides a broad range of wavelength choices and increased beam control, allowing users to select the precise wavelength and beam parameter that best match their application and materials.

Notwithstanding the benefits offered by fiber lasers, there remain applications and processes where traditional laser technologies may provide superior performance with respect to particular features. For example, crystal lasers can provide higher peak power pulses and fiber lasers do not generate the deep ultraviolet light that is used for photolithography in many semiconductor applications.

According to Strategies Unlimited, sales of fiber lasers are estimated to grow at a compound annual growth rate of approximately 39%, from \$131 million in 2005 to \$674 million by 2010. Strategies Unlimited also estimates the total available market for fiber lasers to be growing at 9% annually from \$1.8 billion in 2005 to \$2.8 billion by 2010. The penetration of fiber lasers is estimated to grow from 7% to 24% of the total available market for fiber lasers during that time period.

Our Strengths

Our key strengths and competitive advantages include:

Differentiated Proprietary Technology Platform. Our proprietary technology platform allows our products to have higher output powers and superior beam quality than are achievable through traditional techniques. In addition, we have developed a wide range of advanced proprietary optical components that contribute to the superior performance and reliability of our products.

Leading Market Position. As a pioneer and technology leader in fiber lasers, we have built leading positions in our various end markets with a large and diverse customer base.

Breadth and Depth of Expertise. We have extensive know-how in materials sciences, which enables us to make our specialty optical fibers, semiconductor diodes and other critical components. We also have expertise in optical, electrical, mechanical and semiconductor engineering which we use to develop and manufacture our products.

Vertically Integrated Development and Manufacturing. We believe that we are the only fiber laser manufacturer that is vertically integrated. We develop and manufacture all of the key components of our fiber lasers, including semiconductor diodes, specialty optical fibers and other advanced optical components. We believe our vertical integration enhances our ability to meet customer requirements, accelerate development, manage costs and improve component yields, while maintaining high performance and quality standards.

Diverse Customer Base, End Markets and Applications. Our diverse customer base, end markets and applications provide us with many growth opportunities. We have shipped more than 21,000 units and, in 2005, we shipped to more than 300 customers worldwide.

Broad Product Portfolio and Ability to Meet Customer Requirements. We offer a broad range of standard and custom fiber lasers and amplifiers ranging in power from one watt to 50 kilowatts. As a result of our modular, scalable technology platform, we are able to easily customize and upgrade our products to meet customer requirements.

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Our Strategy

We intend to maintain and extend our leadership position by pursuing the following key elements of our strategy:

Leverage Our Technology to Gain Market Share. We plan to leverage our brand and position as the leader in developing and commercializing fiber lasers to increase our market share in the broader market. We believe that our fiber lasers will continue to displace traditional lasers in many existing applications due to their superior performance and value.

Target New Applications for Lasers. We intend to continue to enable and penetrate additional applications where lasers have not traditionally been used. We believe that fiber laser technology can overcome many of the limitations that have slowed the adoption of traditional lasers.

Expand Our Product Portfolio. We plan to continue to invest in research and development to add additional wavelengths, power levels and other parameters, improve beam quality and develop new products.

Optimize Our Manufacturing Capabilities. We plan to seek further increases in the automation of our component manufacturing processes and device assembly to improve component yields and increase the power outputs and capacities of the various components that we make.

Expand Global Reach to Attract Customers Worldwide. We intend to capitalize on and grow our global customer base by opening new application development centers as well as sales and service offices in Asia, Europe and the United States.

Risk Factors

Our business is subject to numerous risks and uncertainties, including those highlighted in the section entitled Risk Factors immediately following this prospectus summary. The principal risks that we face relate to the following factors:

Application Penetration and Increasing Market Share. Our future growth depends upon our ability to penetrate new applications for fiber lasers and increase our market share in existing applications.

Acceptance and Rate of Penetration. If fiber lasers do not achieve broader market acceptance or if market penetration occurs more slowly than we expect, prospects for our growth and profitability may be negatively impacted.

Effectively Managing Our Growth. We may not be able to effectively manage our growth, which may harm our business and operating results.

High Levels of Fixed Costs. Our vertical integration strategy results in high levels of fixed costs, and our manufacturing capacity may not be at the appropriate size for future levels of demand.

Intellectual Property Infringement Claims. We are currently subject to claims that we are infringing third-party intellectual property rights and other claims may arise in the future, which could result in costly and lengthy litigation, the outcome of which is unknown.

Corporate Information

We began our operations in Russia in 1990 and were incorporated in Delaware in 1998. Our principal executive offices are located at 50 Old Webster Road, Oxford, Massachusetts 01540, and our telephone number is (508) 373-1100. Our website is located at www.ipgphotonics.com. Information on our website should not be considered part of this prospectus.

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THE OFFERING

Common stock offered by IPG Photonics 6,241,379 shares

Common stock offered by the selling stockholders 2,758,621 shares

Common stock to be outstanding after the offering 43,498,926 shares

Use of proceeds We expect to receive net proceeds from the offering of approximately \$81.8 million. We expect to use the net proceeds from the offering to repurchase our series B warrants, to repay certain of our outstanding indebtedness and for general corporate purposes. We will not receive any proceeds from the shares sold by the selling stockholders. The selling stockholders include our chairman and chief executive officer and two other members of our board of directors. See Principal and Selling Stockholders. Entities that are affiliates of Merrill Lynch & Co., one of the underwriters in this offering, will also be selling stock in this offering and will receive a portion of the proceeds of this offering as a result of our repurchase of series B warrants held by them. See Principal and Selling Stockholders and Underwriting Certain Relationships; NASD Conduct Rules. One of our directors, Michael C. Child, is a managing director of TA Associates, Inc., which will receive a portion of the proceeds of this offering as a result of our repurchase of the series B warrants held by it. See Use of Proceeds.

Nasdaq Global Market Symbol IPGP

The number of shares of common stock to be outstanding after the offering is based on 27,343,330 shares outstanding as of September 30, 2006 and includes 9,914,217 shares that we will issue upon conversion of our outstanding preferred stock upon completion of the offering assuming an initial public offering price of \$14.50 per share, which is the midpoint of the range set forth on the cover page of this prospectus.

The number of shares of common stock to be outstanding after the offering excludes:
4,411,923 shares issuable upon exercise of stock options outstanding as of September 30, 2006, which have a weighted average exercise price of \$2.68 per share;

3,131,384 additional shares reserved as of September 30, 2006 for future issuance under our stock-based compensation plans;

warrants to purchase shares of our common stock that will be repurchased at the closing of this offering; and

17,746 shares issued upon the exercise of options after September 30, 2006.

Unless otherwise stated, all information contained in this prospectus:
gives effect to the conversion of our outstanding preferred stock into a combination of common stock and subordinated notes;

gives effect to a 2-for-3 reverse stock split which occurred on December 7, 2006;

gives effect to amendments to our certificate of incorporation and by-laws that will become effective upon completion of this offering; and

assumes no exercise of the option to purchase up to 1,350,000 additional shares of common stock from the selling stockholders that has been granted to the underwriters.

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The following summary consolidated financial data should be read together with the more detailed information contained in Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus. The data for the years ended December 31, 2003, 2004 and 2005, and the nine months ended September 30, 2006 is derived from our audited consolidated financial statements and related notes included elsewhere in this prospectus. The data for the years ended December 31, 2001 and 2002, is derived from our audited consolidated financial statements and related notes not included in this prospectus. The summary interim consolidated financial data for the nine months ended September 30, 2005 is derived from our unaudited consolidated financial statements and related notes included elsewhere in this prospectus. We have prepared our unaudited interim consolidated financial data on a basis consistent with our audited consolidated financial statements except that, effective January 1, 2006, we were required to begin accounting for stock-based payments at fair value, as discussed in note 2 to the consolidated financial statements. In the opinion of our management, our unaudited interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position. Our historical results are not necessarily indicative of the results for any future period.

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
(in thousands, except per share data)							
Consolidated Statement of Operations Data:(1)							
Net sales	\$ 26,490	\$ 22,180	\$ 33,740	\$ 60,707	\$ 96,385	\$ 62,238	\$ 101,128
Cost of sales	26,223	23,277	38,583	42,274	62,481	41,763	57,983
Gross profit (loss)	267	(1,097)	(4,843)	18,433	33,904	20,475	43,145
Operating expenses:							
Sales and marketing	21,240	19,910	2,110	2,363	3,236	2,354	4,111
Research and development	8,407	8,383	10,063	4,831	5,788	4,177	4,314
General and administrative	18,875	13,354	9,998	8,179	10,598	6,689	9,352
Other operating expenses	15,042	9,474					
Total operating expenses	63,564	51,121	22,171	15,373	19,622	13,220	17,777
Operating (loss) income	(63,297)	(52,218)	(27,014)	3,060	14,282	7,255	25,368
Interest income (expense), net	1,857	(1,089)	(1,505)	(2,150)	(1,840)	(1,410)	(1,051)
Fair value adjustment to series B warrants(2)	6,862	2,518	(3,664)	(615)	(745)	(477)	(4,356)
Other income, net	975	2,414	1,647	196	236	196	143
(Loss) income before benefit from (provision	(53,603)	(48,375)	(30,536)	491	11,933	5,564	20,104

for) income taxes and minority interests in consolidated subsidiaries							
Benefit from (provision for) income taxes	3,985	(1,175)	2,205	1,601	(4,080)	(2,037)	(6,597)
Minority interests in consolidated subsidiaries	(4)	165	121	(80)	(426)	(25)	(910)
Net (loss) income	\$ (49,622)	\$ (49,385)	\$ (28,210)	\$ 2,012	\$ 7,427	\$ 3,502	\$ 12,597
Net (loss) income per share:							
Basic	\$ (2.17)	\$ (2.13)	\$ (1.40)	\$ (0.01)	\$ 0.16	\$ 0.06	\$ 0.34
Diluted	\$ (2.17)	\$ (2.13)	\$ (1.40)	\$ (0.01)	\$ 0.16	\$ 0.06	\$ 0.31
Weighted average shares outstanding:							
Basic	23,973	24,317	25,534	25,698	26,232	26,105	27,052
Diluted	23,973	24,317	25,534	25,698	30,167	30,040	32,987
Supplementary pro forma net income per share(3)					\$ 0.21		\$ 0.42

(footnotes on following page)

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- (1) Due primarily to certain stock-based compensation awarded primarily in 2000 and 2001, we have recorded significant stock-based compensation during the years ended December 31, 2001, 2002 and 2003. Those awards became fully vested during the year ended December 31, 2004. See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Stock-Based Compensation.
- (2) The change in value of the series B warrants is a non-cash charge related to recording the increase or decrease in the fair value of the warrants. The change in fair value for this derivative instrument is directly related to the probability that the warrants will be exercised prior to their expiration in April 2008. We intend to use a portion of the net proceeds from this offering to repurchase the series B warrants. See Management's Discussion and Analysis of Financial Condition and Results of Operations Factors and Trends That Affect our Operations and Financial Results Effect of Preferred Stock On Net Income and Net Income Per Share.
- (3) The supplemental pro forma disclosures are intended to demonstrate the effects on net income per share of the completion of this offering and the related impacts of the conversion of our preferred stock and the repurchase of the series B warrants with a portion of the net proceeds of this offering. The number of shares used in the calculation of supplementary pro forma net income per common share includes (a) the basic weighted average common stock outstanding, (b) 9,914,217 shares of common stock, which will be issued upon completion of this offering upon the conversion of our preferred stock, assuming an offering price of \$14.50 per share, the midpoint of the range set forth on the cover page of this prospectus and (c) 3,407,383 shares related to the additional dilutive impact of existing assuming options assuming that the fair value of the common stock increases to \$14.50. Supplementary pro forma net income used in the calculation of supplementary pro forma net income per share reflects the elimination of the increase in value of the series B warrants, which will be repurchased upon the completion of this offering, totaling \$745,000 for the year ended December 31, 2005 and \$4.4 million for the nine months ended September 30, 2006. In addition, all accretion of preferred stock has been eliminated in the determination of net income attributable to common stockholders. See Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Fair Value Adjustment of Warrants and Certain Relationships and Related Party Transactions.

The table below summarizes our consolidated balance sheet as of September 30, 2006 on an actual basis, on a pro forma basis to give effect to the conversion of all outstanding shares of preferred stock as of that date into common stock and the issuance of subordinated notes totaling \$20.0 million, which will occur upon closing of this offering, and on a pro forma as adjusted basis to reflect the transactions described above as well as the sale of 6,241,379 shares of our common stock in this offering at an assumed offering price of \$14.50 per share and the application of the estimated net proceeds therefrom as described in Use of Proceeds.

	As of September 30, 2006		
	Actual	Pro Forma	Pro Forma as Adjusted
	(unaudited)		
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$ 11,357	\$ 11,357	\$ 40,652
Working capital	37,994	37,994	85,200
Total assets	141,401	141,401	170,041
Long-term debt, including current portion	23,151	43,151	20,000
Series B warrants	19,000	19,000	

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Convertible redeemable preferred stock	97,902		
Preferred stock	4,880		
Stockholders (deficit) equity	(31,411)	46,491	125,168

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks and uncertainties below, together with the financial and other information contained in this prospectus, before you decide to buy our common stock. If any of the following risks and uncertainties actually occur, our business, prospects, financial condition and results of operations would likely suffer. In these circumstances, the market price of our common stock could decline, and you could lose all or part of your investment in our common stock.

Risks Related To Our Business

Our future growth depends upon our ability to penetrate new applications for fiber lasers and increase our market share in existing applications.

Our future growth will depend on our ability to generate sales of fiber lasers in applications where traditional lasers, such as CO₂ and yttrium aluminum garnet (YAG) lasers, have been used or in new and developing markets and applications for lasers where they have not been used previously. To date, a significant portion of our revenue growth has been derived from sales of fiber lasers primarily for applications where CO₂ and YAG lasers historically have been used. In order to increase market demand for our fiber laser products, we will need to devote substantial resources to:

- demonstrate the effectiveness of fiber lasers in new applications;
- increase our direct and indirect sales efforts;
- extend our product line to address new applications for our products;
- continue to reduce our manufacturing costs and enhance our competitive position; and
- effectively service and support our installed product base.

If we are unable to implement our strategy to develop new applications for our products, our revenues, operating results and financial condition could be adversely affected. We cannot assure you that we will be able to successfully implement our business strategy. In addition, our newly developed or enhanced products may not achieve market acceptance or may be rendered obsolete or less competitive by the introduction of new products by other companies.

If fiber lasers do not achieve broader market acceptance or if market penetration occurs more slowly than we expect, prospects for our growth and profitability may be negatively impacted.

The fiber laser market is relatively new when compared to the conventional laser market and our future success depends on the development and broader market acceptance of fiber lasers. Potential customers may be reluctant to adopt fiber lasers as an alternative to traditional lasers, such as CO₂ and YAG, and non-laser methods, such as mechanical tools. Such potential customers may have substantial investments and know-how related to their existing laser and non-laser technologies, and may perceive risks relating to the reliability, quality, usefulness and cost-effectiveness of fiber lasers when compared to other laser or non-laser technologies available in the market. Many of our target markets, such as the automotive, machine tool and other manufacturing, communications and medical industries, have historically adopted new technologies slowly. These markets often require long test and qualification periods or lengthy government approval processes before adopting new technologies. As a result, we may expend significant resources and time to qualify our products for a new customer application, and we cannot assure that our products will be qualified or approved for such markets. If acceptance of fiber laser technology, and of our fiber lasers in particular, does not continue to grow within the markets that we serve, then the opportunities to increase our revenues and profitability may be severely limited.

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We may not be able to effectively manage our growth and we may need to incur significant costs to address the operational requirements related to our growth, either of which could harm our business and operating resufont-size:1px">

At the
end of
the
period

\$ 4,910 \$ 4,614

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

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

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

Deferred Financing Costs

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

Goodwill

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

Identifiable Intangible Assets

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

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

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

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

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

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

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

Accrued Warranty

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

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

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At the end of the period	\$	36,296	\$	36,351
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Table of Contents**GOODMAN GLOBAL, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Three Months Ended March 31, 2010 and 2009****(Unaudited)*****Other Accrued Expenses***

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

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

3. Long-Term Debt

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

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

Senior subordinated notes

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

Term loan credit agreement/revolving credit agreement

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

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

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

Original issue discount

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

Table of Contents**GOODMAN GLOBAL, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Three Months Ended March 31, 2010 and 2009****(Unaudited)*****Deferred financing costs***

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

Other

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

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

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

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

Table of Contents**GOODMAN GLOBAL, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Three Months Ended March 31, 2010 and 2009****(Unaudited)****4. Fair Value Measurements**

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

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

- Level 1 - Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.
- Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities which are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
- quoted prices for similar assets and liabilities in active markets
 - quoted prices for identical or similar assets or liabilities in markets that are not active
 - observable inputs other than quoted prices that are used in the valuation of the assets or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 - Unobservable inputs for the asset or liability that is supported by little or no market activity. Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions of risk)

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

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

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

Table of Contents**GOODMAN GLOBAL, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Three Months Ended March 31, 2010 and 2009****(Unaudited)****Other Fair Value Measurements***Long-term debt*

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

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

5. Stock Compensation Plans

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

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

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

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

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

6. Comprehensive Income (Loss)

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

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

7. Derivatives

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

Interest Rate Risks

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

Fuel Surcharge Risks

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

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

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

Commodity Derivatives

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

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

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

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

		Asset derivatives		
		Balance sheet location	Fair value as of	
			March 31, 2010	December 31, 2009
Commodity contracts	raw materials	Other current assets	\$ 15,758	\$ 15,777
Commodity contracts	raw materials	Other long term assets	6,614	7,601
			\$ 22,372	\$ 23,378
		Liability derivatives		
		Balance sheet location	Fair value as of	
			March 31, 2010	December 31, 2009
Interest rate swaps		Other accrued expenses	\$ 1,646	\$ 1,138
Commodity contracts - diesel		Other accrued expenses	47	
			\$ 1,693	\$ 1,138

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

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

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

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

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

Contingent Features

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

8. Employee Benefit Plans

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

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

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

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

9. Contingent Liabilities

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

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

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

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GOODMAN GLOBAL, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2010 and 2009

(Unaudited)

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

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

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

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

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

Table of Contents**GOODMAN GLOBAL, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Three Months Ended March 31, 2010 and 2009****(Unaudited)****10. Condensed consolidating financial information**

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

Condensed Consolidating Balance Sheet

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

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

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

Table of Contents**GOODMAN GLOBAL, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Three Months Ended March 31, 2010 and 2009****(Unaudited)***Condensed Consolidating Statement of Operations*

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

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

Table of Contents**GOODMAN GLOBAL, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****Three Months Ended March 31, 2010 and 2009****(Unaudited)***Condensed Consolidating Statement of Cash Flows*

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

	Three months ended March 31, 2009			
	Guarantors	Non-guarantors	Consolidating Entries	Consolidated
Net cash provided by (used in):				
Operating Activities	\$ (25,861)	\$ 990	\$	\$ (24,871)
Investing Activities	(6,120)			(6,120)
Financing Activities	(7,070)	7,070		
Net increase (decrease) in cash	(39,051)	8,060		(30,991)
Cash at beginning of period	129,170	14,948		144,118
Cash at end of period	\$ 90,119	\$ 23,008	\$	\$ 113,127

11. Subsequent Events

The Company has evaluated subsequent events through the time of its filing which represents the date the financial statements are issued.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our results of operations and financial condition. This discussion should be read in conjunction with the condensed consolidated financial statements and notes that are included herein and the consolidated financial statements and notes and the related Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission (SEC) on March 12, 2010.

Overview

Goodman Global, Inc. (Goodman) is a leading domestic manufacturer of heating, ventilation and air conditioning, or HVAC, products for residential and light commercial use (consisting of gas furnaces, package terminal units and compressor bearing units 5 tons in capacity and smaller). Since we began to manufacture HVAC equipment in 1982, we believe that we have grown our share of the residential HVAC market (consisting of gas furnaces and compressor bearing units 5 tons in capacity and smaller) to now become one of the country's largest residential HVAC manufacturers, based on unit sales. Our activities include engineering, manufacturing, distributing, and marketing an extensive line of HVAC equipment and related products.

Our products are predominantly marketed under the Goodman®, Amana® and Quietflex® brand names. We believe the Goodman brand is the single largest domestic residential HVAC brand, based on unit sales, and caters to the large segment of the market that is price sensitive and desires reliable and low-cost climate comfort, while our premium Amana brand includes advanced features, quieter operation and enhanced warranties. The Quietflex brand is a recognized brand of flexible duct.

Founded in 1975 as a manufacturer of flexible duct, we expanded into the broader HVAC manufacturing market in 1982. Since then, we have expanded our product offerings and maintained our core competency of manufacturing high-quality products at low costs. Our growth and success can be attributed to our strategy of providing a quality, competitively priced product that we believe is designed to be reliable and easy-to-install.

We are an indirect subsidiary of Goodman Global Group, Inc, a Delaware corporation formed in October 2007 by affiliates of Hellman & Friedman LLC.

Markets and Sales Channels

We manufacture and market an extensive line of heating, ventilation and air conditioning products for the residential and light commercial HVAC markets primarily in the United States and Canada. These residential and light commercial products consist mainly of gas furnaces, package terminal units and compressor bearing units five tons in capacity and smaller. We also manufacture complementary lines of flex-duct, evaporator coils, air handlers and compressor bearing units with capacities ranging from six through 12.5 tons and source a variety of accessory components that aid in the installation and service of our products. Essentially all of our products are manufactured and assembled at facilities in Texas, Tennessee, Florida, Pennsylvania and Arizona and are distributed through over 945 distribution points across North America.

Our customer relationships include independent distributors, installing contractors or dealers, national homebuilders and other national accounts. We sell to dealers primarily through our network of independent distributors and company-operated distribution centers. We sell to some of our independent distribution channel under inventory consignment arrangements. 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 among distributors, dealers and us.

Weather and Seasonality and Business Mix

We believe that weather patterns have historically impacted the demand for HVAC products. For example, we believe that hot weather in the spring season can cause 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, we believe that 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 fiscal years between 58% and 60% of our total sales occurred in the second and third quarters of the fiscal year. Our peak production also typically occurs in the second and third quarters of the

fiscal year.

We believe approximately 15% to 20% of our sales during 2009 were associated with residential new construction, with the balance attributable to repair, retrofitting and replacement units.

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

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to 41% of our cost of goods sold, are compressors and motors. We purchase most of our components, such as compressors, motors, capacitors, valves and control systems, from third-party suppliers. In order to maintain low input costs, we also manufacture select components when it is deemed cost effective. We also manufacture heat transfer surfaces and heat exchangers for our units. Our primary raw materials are copper, aluminum and steel, all of which we purchase from third parties. We spent approximately \$264.7 million in 2009 on these raw materials. Cost variability of raw materials can have a material impact on our results of operations. To enhance stability in the cost of major raw material commodities, such as copper and aluminum used in the manufacturing process, we have entered and may continue to enter into commodity derivative arrangements. 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 and equaled 3.6% of our net sales in 2009.

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.

Depreciation expense is primarily impacted by capital expenditure levels. Equipment is depreciated on a straight line basis over the assets remaining useful lives.

Interest expense, net consists of interest expense and interest income. In addition, interest expense includes the amortization of deferred financing costs and settlements and changes in fair value of our interest rate derivatives that have not been designated as cash flow hedges.

Other income, net consists of ineffectiveness related to hedge accounting of our commodity swaps, changes in fair value of our commodity contract for diesel that has not been designated as a cash flow hedge, gains or losses from foreign currency translations and miscellaneous income or expenses.

Income Taxes

Our effective income tax rates include a federal statutory rate of 35% and can differ for periods presented as a result of certain items, such as state and local taxes, non-deductible expenses and the domestic production activities deduction.

At March 31, 2010, we had a valuation allowance of \$3.3 million against certain net operating loss carry forwards. As of March 31, 2010, we had net deferred tax liabilities of \$144.4 million primarily related to the non-deductibility of the step-up in basis of the assets to fair value in accordance with purchase accounting that related to our acquisition in 2008 and other prior events.

FASB accounting standards require the use of 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 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. The accounting treatment for recorded tax assets associated with our tax positions reflects 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.

Goodwill and Intangible Assets

At March 31, 2010, we had a balance of \$1,399.5 million in goodwill and \$777.2 million in intangible assets, net of amortization. The analysis performed in the fiscal 2009 fourth quarter did not indicate an impairment of goodwill. As of March 31, 2010, there were no indicators noted that we believe would require us to re-evaluate our annual impairment test. We will perform our annual impairment testing in the fourth quarter of 2010.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We must make these estimates and assumptions because certain information is dependent on future events, cannot be calculated with a high degree of precision from data available or simply cannot be readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine, and significant judgment must be exercised. In preparing the financial statements, the most difficult, subjective and complex estimates and the assumptions that deal with the greatest amount of uncertainty relate to goodwill, intangible and long-lived assets and reserves for self-insurance, warranty and income tax liabilities. Actual results could differ materially from the

estimates and assumptions used in the preparation of our financial statements.

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We base many of our assumptions on our historical experience, recent trends and forecasts. We develop our forecasts based upon current and historical operating performance, expected industry and market trends and expected overall economic conditions. Our assumptions about future experience, cash flows and profitability require significant judgment since actual results have fluctuated in the past and are expected to continue to do so.

Our critical accounting policies are included in our Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC on March 12, 2010. We believe that there have been no significant changes during the quarter ended March 31, 2010 to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

Results of Operations

The table below presents condensed statement of income information for the three months ended March 31, 2010 and 2009 as a percentage of net sales.

	Three months ended March 31,	
	2010	2009
Sales, net	100.0%	100.0%
Cost of goods sold	69.9	77.2
Selling, general and administrative	14.4	15.7
Depreciation and amortization expenses	3.1	3.9
Operating profit	12.6	3.2
Interest expense, net	8.0	12.0
Other (income) expense, net		0.1
Earnings before taxes	4.6	(8.9)
Provision for income taxes	1.8	(3.5)
Net income	2.8	(5.4)

Three Months Ended March 31, 2010 Compared to March 31, 2009

Sales, net. Net sales for the three months ended March 31, 2010 were \$388.8 million, a \$70.6 million increase from \$318.2 million for the three months ended March 31, 2009. Sales volume for the three months ended March 31, 2010 was 16.4% higher than the same period in the previous year, primarily as a result of increased sales in the majority of our product lines (due, in part, to an improved domestic economy) and a 5.8% increase related to a more favorable product mix, including the continued shift to higher priced, higher SEER cooling products.

Cost of goods sold. Cost of goods sold for the three months ended March 31, 2010 was \$271.9 million, a \$26.1 million increase from \$245.8 million for the three months ended March 31, 2009. Cost of goods sold as a percentage of net sales decreased from 77.2% for the three months ended March 31, 2009 to 69.9% for the three months ended March 31, 2010. This decrease in cost of goods sold as a percentage of net sales was due to cost-reducing product designs, a reduction in certain raw material costs and the shift in product mix to higher margin products.

Selling, general and administrative expense. Selling, general and administrative expense was \$56.1 million for the three months ended March 31, 2010, a \$6.1 million increase from \$50.0 million for the three months ended March 31, 2009 which related primarily to increases of approximately \$3.2 million in payroll-related expenses that primarily related to newly opened company-operated distribution centers during the past twelve months, \$1.1 million in advertising and promotion and \$1.5 million related to early payment cash discounts, credit card fees and bad debts that primarily related to the increase in revenues.

Depreciation and amortization expense. Depreciation and amortization expense for the three months ended March 31, 2010 was \$12.0 million, a \$0.4 million decrease from \$12.4 million for the three months ended March 31, 2009. The decrease was the result of a certain group of assets that became fully depreciated in 2009.

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Operating profit. Operating profit for the three months ended March 31, 2010 was \$48.8 million, a \$38.7 million increase from \$10.1 million reported for the three months ended March 31, 2009. The increase was primarily due to a decrease in cost of goods sold as a percentage of net sales that was partially offset by an increase in selling, general and administrative expenses.

Interest expense, net. Interest expense, net for the three months ended March 31, 2010 was \$31.2 million, a decrease of \$6.9 million from \$38.1 million reported for the three months ended March 31, 2009. This decrease was primarily the result of having less debt outstanding during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. Our outstanding debt was \$1,162.4 million at March 31, 2010 as compared to \$1,349.3 million at March 31, 2009. Additionally, our term loan average interest rate was 6.25% during the three months ended March 31, 2010 as compared to 7.5% for the three months ended March 31, 2009.

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Other (income) expense, net. Other income for the three months ended March 31, 2010 was \$0.2 million, a net change of \$0.6 million from \$0.4 million in other expense reported for the three months ended March 31, 2009 that primarily related to a reduction of \$1.0 million in hedge ineffectiveness on our commodity swaps that was partially offset by \$0.4 million in foreign currency losses.

Provision for income taxes. Income tax expense for the three months ended March 31, 2010, was \$6.7 million, an increase of \$17.8 million compared to an income tax benefit of \$11.1 million for the three months ended March 31, 2009. The increase was primarily related to \$17.7 million in pre-tax earnings in the three months ended March 31, 2010 as compared to a pre-tax loss of \$28.5 million for the three months ended March 31, 2009. The effective tax rates for the three months ended March 31, 2010 and March 31, 2009 were comparable at 38.0% and 38.6%, respectively.

Liquidity and Capital Resources and Off-Balance Sheet Arrangements

As of March 31, 2010, we had unrestricted cash and cash equivalents of \$53.5 million, working capital of \$311.7 million and availability under our revolving credit agreement of \$211.4 million.

At March 31, 2010, we had, exclusive of original issue discount, \$1,178.0 million of net indebtedness outstanding that included \$424.0 million of senior subordinated notes and \$754.0 million related to our term loan credit agreement. At March 31, 2010, we had no borrowings under our revolving credit agreement. Outstanding commercial and standby letters of credit issued under the credit facility totaled \$33.5 million as of March 31, 2010.

In April 2010, we made a \$7.1 million prepayment on our term loan credit agreement further reducing the outstanding balance due at maturity in February 2014.

We anticipate paying approximately \$108.6 million in cash interest expense in 2010 related to our outstanding debt, assuming our current debt levels and interest rates remain constant for the year. At March 31, 2010, we were in compliance with all of the covenants under our term loan credit agreement, revolving credit agreement and senior subordinated notes.

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

We have funded, and expect to continue to fund, operations through cash flows generated by operating activities and borrowings under our revolving credit agreement. We also expect that ongoing requirements for debt service and capital expenditures will be funded from these sources.

Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit agreement, 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, debt service and general corporate purposes. Our ability to meet our working capital and debt service requirements, however, is subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. If we are not able to meet such requirements, we may be required to seek additional financing. There can be no assurance that we will be able to obtain financing from other sources on terms acceptable to us, if at all. Based on our current business plans, we expect to make annual capital expenditures of approximately \$20 million to \$25 million over the next two years.

From time to time, we may pursue acquisitions, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted. We expect to fund any future acquisitions primarily with cash flow from operations and borrowings, including borrowing from amounts available under our revolving credit agreement or through new debt issuances. We or our Parent may also issue additional equity either directly or in connection with any such acquisitions. As of March 31, 2010, other than routine leasing agreements, we had no off-balance sheet arrangements.

Operating activities. Cash provided by operating activities for the three months ended March 31, 2010 was \$18.1 million, a \$43.0 million increase when compared to \$24.9 million of cash used in operating activities for the three months ended March 31, 2009. The increase was primarily the result of \$28.4 million in incremental net income and a \$13.5 million change in operating assets and liabilities. A net decrease of \$25.6 million in inventories and accounts payable related primarily to the timing of raw material purchases and a decrease of \$8.1 million in

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other receivables related primarily to income tax refunds and changes in fair value of commodity hedges designated as cash flow hedges. This was partially offset by an increase of \$20.2 million in accounts receivable that was primarily related to \$70.5 in increased revenues.

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Investing activities. Cash used in investing activities for the three months ended March 31, 2010 and March 31, 2009 was \$4.2 million and \$6.1 million, respectively, and consisted primarily of purchases of property, plant and equipment.

Financing activities. Cash was neither provided by or used in financing activities in the three months ended March 31, 2010 and March 31, 2009.

Recent Accounting Pronouncements

Refer to Note 1 to the notes to condensed consolidated financial statements for a discussion of recent accounting pronouncements.

Cautionary Note on Forward Looking Statements

This quarterly report contains forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance or other statements that are not historical statements that are contained in this quarterly report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. The words "believe," "expect," "anticipate," "intend," "estimate" and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. We have based these forward-looking statements on our current expectations about future events. While we believe these expectations are reasonable, these forward-looking statements are inherently subject to risks and uncertainties, many of which are beyond our control. Our actual results may differ materially from those suggested by these forward-looking statements for various reasons, including those discussed in this quarterly report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Part II, Item 1A below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations are:

adverse conditions affecting the U.S. economy;

volatility and disruption of the capital and credit markets and adverse changes in the U.S. and global economy, which may negatively impact our and our customers' ability to access financing;

changes in weather patterns and seasonal fluctuations;

a failure by us to improve our existing products, develop new products or keep pace with our competitors' product development;

increased competition, as well as consolidation among independent distributors;

significant fluctuations in the cost of raw materials and components and a decline in our relationships with key suppliers;

a significant impairment of the value of our intangible assets or long-lived assets;

a decline in our relations with our key distributors;

damage or injury caused by our products, which may result in material liabilities associated with product recalls or reworks;

the incurrence of material costs as a result of product liability or warranty claims;

higher than expected tax rates or exposure to additional income tax liabilities;

the costs of complying with, or addressing liabilities under, laws relating to the protection of the environment and worker health and safety;

labor disputes with our employees;

the loss of members of our management team;

natural or man-made disruptions to our distribution and manufacturing facilities;

our inability to access funds generated by our subsidiaries, making us unable to meet our financial obligations;

our failure to adequately protect our intellectual property rights or claims that we are in violation of the intellectual property rights of third parties;

the requirements of being a public company, which may strain our resources and distract management;

our substantial indebtedness, which may adversely affect our financial condition, our ability to operate our business, react to changes in the economy or our industry and pay our debts and could divert our cash flow from operations for debt payments;

the incurrence by us or our subsidiaries of substantially more debt, which could further exacerbate the risks associated with our substantial leverage;

our need to generate cash to service our indebtedness;

restrictions in our debt agreements that limit our flexibility in operating our business; and

other factors detailed from time to time in our filings with the SEC.

The forward-looking statements included in this quarterly report are made only as of the date hereof. We do not undertake and specifically decline any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or developments, changed circumstances or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks, which arise during the normal course of business from changes in interest rates, foreign exchange rates and commodity prices. A discussion of our primary market risks are presented below.

Interest rate risk

We are subject to interest rate and related cash flow risk in connection with borrowings under our term loan and revolving credit facilities which totaled \$754.0 million at March 31, 2010. To reduce the risk associated with fluctuations in the interest rate of our floating rate debt: (1) in May 2008, we entered into a two-year interest rate cap with a notional amount of \$150.0 million that matures in May 2010; (2) in March 2009, we entered into an interest rate swap with a notional amount of \$200.0 million that matured in March 2010; and (3) in March 2009, we entered into an interest rate swap with a notional amount of \$300.0 million that matures in March 2011.

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Our results of operations can be affected by changes in interest rates due to variable interest rates on our term loan credit agreement and revolving credit agreement. A 1% increase or decrease in the overall interest rate would have resulted in approximately a \$0.7 million (\$0.4 million, net of tax) increase or decrease in our interest expense in the three months ended March 31, 2010 on our variable rate indebtedness, after taking into consideration our interest rate swaps.

Foreign currency exchange rate risk

We conduct our business primarily in the United States. We have limited sales in Canada, which are transacted in Canadian dollars. Other export sales, primarily to Latin America and the Middle East, are transacted in United States dollars. Therefore, we have only minor exposure to changes in foreign currency exchange rates. Sales outside the United States have not exceeded 5% in any of the three years ended December 31, 2009, 2008 or 2007. Approximately 1% of our total assets are outside the United States. There has been minimal impact on operations due to currency fluctuations.

Commodity price risk

We are subject to price risk as it relates to our principal raw materials: copper, aluminum and steel. Cost variability of raw materials can have a material impact on our results of operations. To enhance stability in the cost of major raw material commodities, such as copper and aluminum used in the manufacturing process, we have entered and may continue to enter into commodity derivative arrangements. Maturity dates of the contracts are scheduled to coincide with market purchases of the commodity. Cash proceeds or payments between the derivative counter-party and us at maturity of the contracts are recognized as an adjustment to the cost of the commodity purchased, to the extent the hedge is effective. Charges or credits resulting from ineffective hedges are recognized in income immediately. We have entered into swaps for a portion of our commodity supply that expire through December 31, 2011. These swaps had a net fair value as an asset of \$22.4 million (\$13.8 million, net of tax) as of March 31, 2010. A 10% change in the price of commodities hedged would change the fair value of the hedge contracts by approximately \$12.6 million (\$7.7 million, net of tax) as of March 31, 2010.

We continue to monitor and evaluate the prices of our principal raw materials and may decide to enter into hedging contracts 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 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.

There have been no changes in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2010 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

The information regarding litigation and environmental matters described in Note 9 of the Notes to the Consolidated Condensed Financial Statements included elsewhere in this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

You should carefully consider the risk factors set forth below as well as the other information contained in this quarterly report, including our consolidated financial statements and related notes, and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business or results of operations. Any of the following risks could materially and adversely affect our business, financial condition or results of operations.

Risks related to our business

Our business has been, and may continue to be, adversely impacted by conditions affecting the U.S. economy.

Our business is affected by a number of economic factors, including the level of economic activity in the markets in which we operate. Throughout 2008 and 2009, the decline in economic activity in the United States affected our business, financial condition and results of operations. Sales in the residential and commercial new construction market correlate closely to the number of new homes and buildings that are built, which in turn is influenced by factors such as interest rates, inflation or deflation, consumers' spending habits, employment rates and other macroeconomic factors over which we have no control. Declining economic activity as a result of these factors resulted in a reduction in new construction and replacement purchases, which has affected, and may continue to affect, our sales volume and profitability.

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The volatility and disruption of the capital and credit markets and adverse changes in the U.S. and global economy may negatively impact our ability, and the ability of our customers, to access financing and may impede our internal growth.

In late 2007, 2008 and early 2009, the capital and credit markets experienced volatility and disruption at unprecedented levels. Significant declines in the housing market during that period, coupled with falling home prices, increasing foreclosures and high levels of unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs have caused many financial institutions to seek government assistance and additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced, and in some cases ceased to provide, funding to borrowers, including other financial institutions. These disruptions in the financial markets may not only impact our liquidity but that of our suppliers, our independent distributors and our customers. If these market disruptions re-emerge, our business, financial condition, results of operations and cash flows could be adversely affected.

Changes in weather patterns and seasonal fluctuations may adversely affect our operating results.

Weather fluctuations may adversely affect our operating results and our ability to maintain our sales volume. Our operations may be adversely affected by unseasonably warm weather in the months of November to February and unseasonably cool weather in the months of May to August, which has the effect of diminishing customer demand for heating, ventilation and air conditioning systems and decreasing our sales volumes. Many of our operating expenses cannot be easily reduced during periods of decreased demand for our products. Accordingly, our results of operations will be negatively impacted in quarters with lower sales due to such weather fluctuations. In addition, our sales volumes and operating results in certain regions can be negatively impacted during inclement weather conditions in these regions.

In addition, our quarterly results may vary significantly within the fiscal year. Although there is demand for our products throughout the year, in each of the past three fiscal years between 58% and 60% of our total sales occurred in the second and third quarters of the fiscal year. Our peak production also typically occurs in the second and the third quarters of the fiscal year. Therefore, quarterly comparisons of our sales and operating results should not be relied upon as an indication of future performance, and the results of any quarterly period may not be indicative of expected results for a full year.

If we fail to improve our existing products or develop new products, or if our competitors develop products that are superior to ours, our competitiveness in the marketplace, financial condition, results of operations and cash flows may be adversely affected.

Product innovation and new product development are important to maintaining the competitive position of our business and growing our sales and profit margins. Company-sponsored research and development expenses were \$3.1 million for the three months ended March 31, 2010 and \$11.2 million, \$10.5 million and \$9.1 million for the years ended December 31, 2009, 2008 and 2007, respectively. We intend to continue to conduct research and development activities as a means of improving existing products and developing new products. However, there can be no assurance that we will be able to improve existing products or develop new products on a cost-effective and timely basis or at all, that such products will compete favorably with products developed by our competitors, or that our existing technology will not be superseded by other technological developments that may be utilized by our competitors. If we fail to improve existing products or develop new products, or our competitors develop products that are superior to ours, we could experience lower revenues or lower profit margins, which could have an adverse effect on our competitiveness in the marketplace, business, financial condition, results of operations and cash flows.

Increased competition, as well as consolidation among independent distributors, may reduce our market share and our future sales.

The production and sale of HVAC equipment by manufacturers is highly competitive. According to industry sources, the top six domestic manufacturers (including us) represented approximately 90% of the unit sales in the U.S. residential and light commercial HVAC market in 2008. According to industry sources, our four largest competitors in this market are Carrier Corporation (a division of United Technologies Corporation), Trane Inc. (a wholly-owned subsidiary of Ingersoll-Rand Company Limited), Lennox International, Inc. and Rheem Manufacturing Company. Several of our competitors may have greater financial and other resources than we have. A number of factors affect competition in the HVAC industry, including an increasing emphasis on the development of more efficient HVAC products. Existing and future competitive pressures may materially and adversely affect our business, financial condition or results of operations, including pricing pressure if our competitors improve their cost structure. In addition, our company-operated distribution centers face competition from independent distributors and dealers owned by our competitors, some of whom may be able to provide their products or services at lower prices than we can. We may not be able to compete successfully against current and future competition, and current and future competitive pressures faced by us may adversely affect our profitability and performance.

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There are several companies that have recently sought to purchase, or have purchased, independent distributors and dealers and consolidate them into large enterprises. These consolidated enterprises may be able to exert pressure on us to reduce prices. Additionally, these new enterprises tend to emphasize their company name, rather than the brand of the manufacturer, in their promotional activities, which could lead to dilution of the importance and value of our brand names. Future price reductions and any brand dilution caused by the consolidation among HVAC distributors and dealers could have an adverse effect on our business, financial condition and results of operations.

Significant fluctuations in the cost of raw materials and components have reduced, and may in the future reduce, our operating margins. In addition, a decline in our relationships with key suppliers may have an adverse effect on our business, financial condition or results of operations.

Our operations depend on the supply of various raw materials and components, including copper, aluminum, steel, refrigerants, motors and compressors, from domestic and foreign suppliers. We do not enter into long-term supply contracts for many of our raw materials and component requirements. As a result, our suppliers may discontinue providing products to us at attractive prices, and we may be unable to obtain such products in the future from these or other providers on the scale and within the time frames we require. For example, our purchases of raw materials and components from international suppliers are subject to risks associated with changes in, and application of, laws, regulations and policies, including those related to tariffs (such as anti-dumping and countervailing duties) and other trade barriers. If a key supplier were unable or unwilling to meet our supply requirements, we could experience supply interruptions and cost increases which (to the extent that we are not able to find alternate suppliers or pass on these additional costs to our customers) could adversely affect our business, financial condition or results of operations. To the extent that any of our suppliers experiences a shortage of components that we purchase, we may not receive shipments of those components and, if we were unable to obtain substitute components on a timely basis, our production would be impaired.

Between 2004 and 2008, commodity prices rose significantly to levels well above prices seen in the prior decade. To help address the rise in commodity costs, we implemented price increases in 2006 and 2008 on the majority of our products. A further increase in commodity prices could have a material adverse effect on our results of operations. We may not be able to increase the prices of our products further or reduce our costs to offset the higher commodity prices.

We are subject to price risk as it relates to our principal raw materials: copper, aluminum and steel. Cost variability of raw materials can have a material impact on our results of operations. To create stability in the cost of major raw material commodities, such as copper and aluminum used in the manufacturing process, we have entered into and intend to continue to enter into commodity derivative arrangements. Maturity dates of the contracts are scheduled to occur at various times in 2010 and 2011 with respect to the various commodities. With respect to any given commodity, the maturities of our derivative arrangements may not be sufficiently long term to protect us from fluctuations in market prices. Cash proceeds or payments between the derivative counter-party and us at maturity of the contracts are recognized as an adjustment to the cost of the commodity purchased, to the extent the hedge is effective. Charges or credits resulting from ineffective hedges are recognized in income immediately. A 10% change in the price of commodities hedged would change the fair value of the hedge contracts by approximately \$12.6 million and \$8.8 million as of March 31, 2010 and December 31, 2009, respectively. Our efforts to mitigate rising raw materials costs could adversely affect our results of operations if commodity prices were to unexpectedly decline.

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

Any determination that a significant impairment of the value of our intangible assets or long-lived assets has occurred could have a material adverse effect on our consolidated financial condition and results of operations.

As a result of the 2008 Acquisition, goodwill and other acquired intangible assets represent a substantial portion of our assets. Goodwill was approximately \$1.4 billion and other identifiable intangible assets were approximately \$777.2 million as of March 31, 2010. We also have long-lived assets consisting of property and equipment, net of depreciation, of \$166.7 million as of March 31, 2010. We review these assets both on a periodic basis as well as when events or circumstances indicate that the carrying amount of an asset may not be recoverable. Any future determination that an impairment of the fair value of our goodwill, unamortized intangible assets or long-lived assets has occurred would require us to write-down the impaired portion of those assets to fair value, which would reduce our assets and stockholders' equity and could have a material adverse effect on our business, financial condition and results of operations.

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A decline in our relations with our key distributors may adversely affect our business.

Our operations also depend upon our ability to maintain our relationships with our independent distributors. While we generally enter into contracts with our independent distributors, these contracts typically last for two years and can be terminated by either party upon 30 days notice. If our key distributors are unwilling to continue to sell our products or if our key distributors merge with or are purchased by a competitor, we could experience a decline in sales. If we are unable to replace such distributors or otherwise replace the resulting loss of sales, our business and results of operations could be adversely affected. For 2008 and 2009, approximately 45% and 43%, respectively, of our net sales were made through our independent distributors.

Damage or injury caused by our products could result in material liabilities associated with product recalls or reworks.

In the event that we produce a product that is alleged to contain a design or manufacturing defect, we could be required to incur costs involved to recall or rework that product. The costs required to recall or rework any defective products could be material, which may have a material adverse effect on our business. Any recalls or reworks may adversely affect our reputation as a manufacturer of quality, safe products and could have a material adverse effect on our business, financial condition and results of operations.

We may incur material costs as a result of product liability or warranty claims that would negatively affect our profitability.

The development, manufacture, sale and use of our products involve a risk of product liability and warranty claims, including personal injury and property damage arising from fire, soot, mold and carbon monoxide. We currently carry insurance and maintain reserves for potential product liability claims. However, our insurance coverage or reserves may be inadequate if such claims arise and any liability not covered by insurance could have a material adverse effect on our business. Moreover, our insurance premiums may increase in the future as a consequence of conditions in the insurance business generally or our situation in particular. Any such increase could result in lower profits or cause the need to reduce our insurance coverage. Any product liability claim may also include the imposition of punitive damages, the award of which, pursuant to certain state laws, may not be covered by insurance. Our product liability insurance policies have limits that if exceeded, may result in material costs that would have an adverse effect on our future profitability. In addition, warranty claims are not covered by our product liability insurance. Any product liability or warranty issues may adversely affect our reputation as a manufacturer of safe, quality products and could have a material adverse effect on our business, financial condition and results of operations.

Our financial results or liquidity may be adversely impacted by higher than expected tax rates or exposure to additional income tax liabilities.

Our effective tax rate is highly dependent upon the geographic composition of our earnings and tax regulations governing each region. We are subject to income taxes in multiple jurisdictions within the United States and Canada, and significant judgment is required to determine our tax liabilities. Our effective tax rate as well as the actual tax ultimately payable could be adversely affected by changes in the split of earnings between jurisdictions with differing statutory tax rates, in the valuation of deferred tax assets, in tax laws or by material audit assessments, which could affect our profitability. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

We adopted the provisions of Financial Accounting Standards Board (FASB) accounting standards that, among other things, require companies to recognize the tax benefits of uncertain positions only when the position is more likely than not to be sustained assuming examination by tax authorities. The amount recognized represents the largest amount of tax benefit that is more likely than not to be ultimately realized. A liability is recognized for any benefit claimed, or expected to be claimed, in a tax return in excess of the benefit recorded in the financial statements, along with any interest and penalty (if applicable) on the excess. At March 31, 2010, we had established a \$56.5 million liability in respect of such unrecognized tax benefits, of which \$4.7 million would impact the effective tax rate at recognition. We may be required to make cash payments in respect of taxes (and interest thereon) in respect of such unrecognized tax benefit. While we do not expect any such payments to have a material impact on our results of operations due to the liability we have already recognized, any such payments could impact our liquidity at the time they are made.

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

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The costs of complying with, or addressing liabilities under, laws relating to the protection of the environment and human health and safety may be significant.

We are subject to extensive, evolving and often stringent international, federal, state, provincial, municipal and local laws and regulations relating to the protection of human health and the environment, including those limiting the discharge of pollutants into the environment and those regulating the treatment, storage, disposal and remediation of, and exposure to, solid and hazardous wastes and hazardous materials. Certain environmental laws and regulations impose liability on potentially responsible parties, including past and present owners and operators of sites, to clean up, or contribute to the cost of cleaning up, sites at which hazardous wastes or materials were disposed of or released. Such liability may be imposed without regard to fault and whether or not the responsible party knew of the condition. In addition, the liability may be joint and several, which could result in a party paying for more than its fair share. We are currently, and may in the future be, required to incur costs relating to the investigation or remediation of such sites, or sites owned or operated by third parties where we have, or may have, disposed of our waste. See Business Regulation.

Many applicable environmental laws and regulations provide for substantial fines or civil or criminal sanctions for violations. We incur expenses to maintain such compliance and it is possible that more stringent environmental laws and regulations, more vigorous enforcement or a new interpretation of existing laws and regulations could require us to incur additional costs and penalties. Further, existing or future circumstances, such as the discovery of new or materially different environmental conditions, could cause us to incur unanticipated costs that could have a material adverse effect on our business, financial condition and results of operations.

We are also subject to various laws and regulations relating to health and safety and expect to continue to make capital expenditures at our facilities to improve worker health and safety. Expenditures at our facilities to maintain compliance with the Occupational Safety and Health Administration, or OSHA, standards could be significant, and we may become subject to liabilities relating to worker health and safety at our facilities in the future. In addition, future inspections at our facilities may result in enforcement actions by OSHA.

Our products are also subject to international, federal, state, provincial and local laws and regulations. We are required to maintain our products in compliance with applicable current laws and regulations, and any changes which affect our current or future products could have a negative impact on our business and could result in additional compliance costs. For example, effective January 23, 2006, U.S. federal regulations mandated an increase in the minimum seasonal energy efficiency ratio, or SEER, from 10 to 13 for central air conditioners and heat pumps manufactured in the United States. On November 19, 2007, the U.S. Department of Energy, or DOE, issued new regulations increasing the minimum annual fuel utilization efficiency, or AFUE, for several types of residential furnaces. These regulations apply to furnaces manufactured for sale in the U.S. or imported into the United States on and after November 19, 2015. On December 19, 2007, federal legislation was enacted authorizing the DOE to study the establishment of regional efficiency standards for furnaces and air conditioners. In April 2010, the DOE held a public hearing to consider a proposed rule amending the current AFUE for furnaces and establishing two regions for regulatory purposes. The DOE is expected to issue a final rule establishing regional standards by May 1, 2011. The required efficiency levels for our products may be further increased in the future by the relevant regulatory authorities. Any future changes in required efficiency levels or other government regulations could adversely affect our industry, business, financial condition and results of operations.

Labor disputes with our employees could interrupt our operations and adversely affect our business.

We negotiated a three year collective bargaining agreement with the International Association of Machinists and Aerospace Workers, or the union, that was ratified by the union membership on December 5, 2009. As of March 31, 2010, the union represented approximately 23% of our employees, and this agreement covers all hourly employees at our manufacturing facility in Fayetteville, Tennessee. If we are unable to successfully negotiate acceptable terms with the union when the current agreement expires, our operating costs could increase as a result of higher wages or benefits paid to union members, or if we fail to reach an agreement with the union, our operations could be disrupted. Either event could have a material adverse effect on our business. In addition, there have been in the past, and may be in the future, attempts to unionize our non-union facilities. If employees at our non-union facilities unionize in the future, our operating costs could increase.

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Our business operations could be significantly disrupted if we lose members of our management team.

Our success depends to a significant degree upon the continued contributions of our executive officers and key employees, both individually and as a group. For example, we have longstanding relationships with most of our independent distributors. In many cases, these relationships have been formed over a period of years through personal networks involving our key personnel. The loss of these personnel could potentially disrupt these longstanding relationships and adversely affect our business. We have employment-related agreements with ten members of our senior management. Our future performance will be substantially dependent on our ability to retain and motivate our management. The loss of the services of any of our executive officers or key employees could prevent us from executing our business strategy.

We may be adversely affected by any natural or man-made disruptions to our distribution and manufacturing facilities.

We are a manufacturing company that is heavily dependent on our manufacturing and distribution facilities in order to maintain our business and remain competitive. Any serious disruption to a significant portion of our distribution or manufacturing facilities resulting from fire, earthquake, weather-related events, an act of terrorism or any other cause could materially impair our ability to manufacture and distribute our products to customers. Moreover, we could incur significantly higher costs and longer lead times associated with manufacturing or distributing our products to our customers during the time that it takes for us to reopen or replace damaged facilities. Many of our facilities are located at or near Houston, Texas, which is in close proximity to the Gulf of Mexico. This region is particularly susceptible to natural disruptions, as evidenced by hurricane activity in recent years. If any of these events were to occur, our business, financial condition, results of operations and cash flows could be materially adversely affected.

If we are unable to access funds generated by our subsidiaries we may not be able to meet our financial obligations.

Because we conduct our operations through our subsidiaries, we depend on those entities for dividends, distributions and other payments to generate the funds necessary to meet our financial obligations. Legal and contractual restrictions in certain agreements governing current and future indebtedness of our subsidiaries, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. All of our subsidiaries are separate and independent legal entities and have no obligation whatsoever to pay any dividends, distributions or other payments to us.

Our business operations could be negatively impacted if we fail to adequately protect our intellectual property rights or if third parties claim that we are in violation of their intellectual property rights.

Our products are marketed primarily under the Goodman[®], Amana[®] and Quietflex[®] brand names and, as such, we are dependent on those brand names. Failure to protect these brand names and other intellectual property rights or prevent their unauthorized use by third parties could adversely affect our business. We seek to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing and confidentiality agreements. These protections may not be adequate to prevent competitors from copying or reverse engineering our products, or from developing and marketing products that are substantially equivalent to or superior to our own. In addition, we face the risk of claims that we are infringing third parties' intellectual property rights. Any such claim, even if it is without merit, could be expensive and time-consuming; could cause us to cease making, using or selling certain products that incorporate the disputed intellectual property; could require us to redesign our products, if feasible; could divert management time and attention; and could require us to enter into costly royalty or licensing arrangements.

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The requirements of being a public company may strain our resources, distract management and increase our expenses.

If Goodman Global Group, Inc. becomes a public company, we will need to comply with new laws, regulations and requirements, including certain provisions of the Securities Exchange Act of 1934, or the Exchange Act, the related regulations of the Securities and Exchange Commission and the requirements of any stock exchange on which the shares of Goodman Global Group, Inc. are listed. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control for financial reporting. These requirements may place a strain on our systems and resources. Under Section 404 of the Sarbanes-Oxley Act, Goodman Global Group, Inc. will be required beginning with the year ending December 31, 2011, and Goodman Global, Inc. is currently required, to include a report by management on our internal control over financial reporting in our Annual Report on Form 10-K. Our independent public accountants auditing our financial statements will be required to attest to and report on management's assessment of the effectiveness of our internal control over financial reporting beginning with Goodman Global, Inc.'s Annual Report on Form 10-K for the fiscal year ending December 31, 2010 and with Goodman Global Group, Inc.'s Annual Report on Form 10-K for the fiscal year ending December 31, 2011. Previously, in connection with the fiscal year ended December 31, 2006, it was determined that some of our predecessor's commodity derivatives did not qualify for hedge accounting and, as a result, we restated the prior quarters of 2006 to reflect the changes in fair value of those derivatives in other (income) expense, net, and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not then effective for this reason. If we are unable to conclude that our disclosure controls and procedures and internal control over financial reporting are effective, or if our independent public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal control over financial reporting in future years, investors may lose confidence in our financial reports and the trading price of our securities may decline.

In addition, we expect that, if Goodman Global Group, Inc. becomes a public company, being a public company subject to these rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified executive officers and qualified members of our board of directors, particularly to serve on audit and compensation committees.

Risks related to our indebtedness

Our substantial indebtedness could adversely affect our financial condition, our ability to operate our business, react to changes in the economy or our industry and pay our debts and could divert our cash flow from operations for debt payments.

We now have, and will continue to have, a significant amount of indebtedness for the foreseeable future. This indebtedness exposes us to risks that some of our primary competitors, with less outstanding indebtedness, do not face. On March 31, 2010, we had \$1,162.4 million of indebtedness, net of original issue discount of \$15.6 million, excluding \$33.5 million of outstanding and undrawn letters of credit and up to \$266.5 million of additional indebtedness that may be borrowed under the terms and conditions of our revolving credit facility, of which \$211.4 million was available under our borrowing base as of such date.

Our substantial indebtedness could have important consequences to our business, including:

making it more difficult for us to satisfy our obligations with respect to our outstanding notes and other indebtedness;

increasing our vulnerability to general adverse economic and industry conditions;

requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby limiting cash flow available to fund our working capital, capital expenditures or other general corporate requirements;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry and making us more vulnerable to economic downturns and adverse industry conditions;

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compromising our ability to capitalize on business opportunities and to react to competitive pressures, as compared to our competitors, due to our high level of debt and the restrictive covenants in some of our debt agreements; and

limiting our ability to obtain additional financing to fund future working capital, capital expenditures, other general corporate requirements and acquisitions.

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A substantial portion of our indebtedness bears interest at rates that fluctuate with changes in certain prevailing interest rates including the prime rate. A 1% increase or decrease in the overall interest rate would have resulted in approximately a \$0.7 million (\$0.4 million, net of tax) increase or decrease in our interest expense in the three months ended March 31, 2010 on our variable rate indebtedness. If interest rates increase dramatically, we may be unable to meet our debt service obligations. For the three months ended March 31, 2010, we had entered into two interest rate swaps, one with a notional amount of \$200.0 million, which expired in March 2010, and another with a notional amount of \$300.0 million, which expires in March 2011. We are not under any obligation to maintain or renew such arrangements or to enter into additional arrangements, and any such arrangements may not be as effective as we expect in mitigating our exposure to interest rate fluctuations.

Despite current indebtedness levels, we and our subsidiaries may incur substantially more debt. This could further exacerbate the risks associated with our substantial leverage.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although the agreements governing our debt instruments contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. If we incur additional debt above the levels currently in effect, the risks associated with our leverage, including those described above, would increase. As of March 31, 2010, we had \$266.5 million of undrawn commitments under our revolving credit facility (of which \$211.4 million was available under our borrowing base as of such date).

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance. This, to a certain extent, is subject to prevailing economic and competitive conditions and to certain financial, business, regulatory and other factors beyond our control. Our business may not generate sufficient cash flow from operations, and future borrowings may not be available to us under the revolving credit agreement in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If we are unable to meet our debt obligations or fund our other liquidity needs, we may need to restructure or refinance all or a portion of our debt or sell certain of our assets on or before the maturity of our debt. We may not be able to restructure or refinance any of our debt on commercially reasonable terms, or at all, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants that could further restrict our business operations.

In addition, if our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets or seek additional capital. These alternative measures may not be available to us, may not be successful and may not permit us to meet our scheduled debt service obligations, which could result in substantial liquidity problems. The senior secured credit facilities and senior subordinated notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The agreements governing our indebtedness contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and certain of our subsidiaries' ability to, among other things:

incur additional debt or issue certain capital stock;

pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;

make certain investments;

sell assets;

create liens;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;

enter into certain transactions with our affiliates; and

permit restrictions on the ability of our subsidiaries to make distributions.

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In addition, under the revolving credit agreement, when (and for as long as) the combined availability under the revolving credit agreement is less than a specified amount for a certain period of time, or if a payment or bankruptcy event of default has occurred and is continuing, funds deposited into any of our depository accounts will be transferred on a daily basis into a blocked account with the administrative agent and applied to prepay loans under the revolving credit agreement and to cash collateralize letters of credit issued thereunder.

Under the senior secured credit facilities, we will also be required to satisfy and maintain specified financial ratios. Our ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance that we will meet those ratios.

The failure to comply with any of these covenants would cause a default under our debt instruments. A default, if not waived, could result in acceleration of the outstanding indebtedness under such debt instruments, in which case such indebtedness would become immediately due and payable. In addition, a default or acceleration under certain of our debt instruments could result in a default or acceleration of other indebtedness as a result of cross-default or cross-acceleration provisions. If any default occurs, we may not be able to pay our debt or borrow sufficient funds to refinance it. Even if new financing is available, it may not be available on terms that are acceptable to us. Complying with these covenants may cause us to take actions that we otherwise would not take or not take actions that we otherwise would take.

The interests of our controlling stockholder may differ from the interests of the holders of our outstanding debt.

As of March 31, 2010, Hellman & Friedman LLC (H&F) and its affiliates owned, in the aggregate, approximately 87% of Parent's common stock and Parent indirectly owns all of our common stock. In addition, H&F and its affiliates, by virtue of their ownership of our Parent's common stock and their voting rights under a stockholders agreement, control the vote in connection with substantially all matters subject to Parent stockholder approval. As a result of this ownership and the terms of a stockholders agreement, H&F is entitled to elect directors with majority voting power on our Parent's Board of Directors, to appoint new management and to approve actions requiring the approval of the holders of our Parent's outstanding voting shares as a single class, including adopting most amendments to our certificate of incorporation and approving mergers or sales of all or substantially all of our Parent's assets. H&F, through its control of Parent and us, also controls all of our subsidiaries that guarantee our debt.

The interests of H&F and its affiliates may differ from yours in material respects. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of H&F and its affiliates, as equity holders, might conflict with interests of a note holder. H&F and its affiliates may also have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in its judgment, could enhance its equity investments, even though such transactions might involve risks to a note holder, including the incurrence of additional indebtedness. Additionally, certain agreements governing our debt permit us to pay certain advisory fees, dividends or make other restricted payments under certain circumstances, and H&F may have an interest in our doing so.

H&F and its affiliates are in the business of making investments in companies and may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. You should consider that the interests of H&F and its affiliates may differ from yours in material respects.

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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

Pursuant to written consents effective as of February 1, 2010, stockholders holding a majority of the outstanding shares of capital stock of Goodman Global Group, Inc. and the sole stockholder of the Company, in each case acting by consent in lieu of a meeting, elected the following individuals as members of the boards of directors of Goodman Global Group, Inc. and the Company, respectively, each for a term of one year expiring in 2011, to serve until their successors are duly elected and qualified, or until the earlier of their death, resignation or removal: David L. Swift, Lawrence M. Blackburn, Charles A. Carroll, Robert B. Henske, Erik Ragatz, Saloni Saraiya Multani.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index on the page immediately preceding the exhibits for a list of exhibits files as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by reference.

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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 7, 2010

/s/ LAWRENCE M. BLACKBURN
Lawrence M. Blackburn
Executive Vice President and
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of Goodman Global, Inc. (incorporated by reference to Exhibit 3.1 on Goodman Global, Inc.'s Annual Report on Form 10-K, filed with the SEC on March 13, 2009).
3.2	Amended and Restated Bylaws of Goodman Global, Inc. (incorporated by reference to Exhibit 3.7 on Goodman Global, Inc.'s Amendment No. 1 to the Registration Statement on Form S-4, filed with the SEC on May 30, 2008).
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 Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Exhibit is furnished rather than filed, and will not be deemed to be incorporated into any filing, in accordance with Item 601 of Regulation S-K.