BLACKROCK MUNIYIELD MICHIGAN QUALITY FUND, INC.
Form N-CSRS
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT

COMPANIES

Investment Company Act file number: 811-07080

Name of Fund: BlackRock MuniYield Michigan Quality Fund, Inc. (MIY)

Fund Address: 100 Bellevue Parkway, Wilmington, DE 19809

Name and address of agent for service: John M. Perlowski, Chief Executive Officer, BlackRock MuniYield Michigan Quality Fund, Inc., 55 East 52nd Street, New York, NY 10055

Registrant s telephone number, including area code: (800) 882-0052, Option 4

Date of fiscal year end: 07/31/2019

Date of reporting period: 01/31/2019

Item 1 Report to Stockholders

JANUARY 31, 2019

SEMI-ANNUAL REPORT (UNAUDITED)

BlackRock MuniHoldings California Quality Fund, Inc. (MUC)

BlackRock MuniHoldings New Jersey Quality Fund, Inc. (MUJ)

BlackRock MuniYield Investment Quality Fund (MFT)

BlackRock MuniYield Michigan Quality Fund, Inc. (MIY)

BlackRock MuniYield Pennsylvania Quality Fund (MPA)

Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of each Fund s shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from BlackRock or from your financial intermediary, such as a broker-dealer or bank. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

You may elect to receive all future reports in paper free of charge. If you hold accounts directly with BlackRock, you can call Computershare at (800) 699-1236 to request that you continue receiving paper copies of your shareholder reports. If you hold accounts through a financial intermediary, you can follow the instructions included with this disclosure, if applicable, or contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. Please note that not all financial intermediaries may offer this service. Your election to receive reports in paper will apply to all funds advised by BlackRock Advisors, LLC or its affiliates, or all funds held with your financial intermediary, as applicable.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive electronic delivery of shareholder reports and other communications by contacting your financial intermediary, if you hold accounts through a financial intermediary. Please note that not all financial intermediaries may offer this service.

The Markets in Review

Dear Shareholder,

In the 12 months ended January 31, 2019, concerns about a variety of political risks and a modest slowdown in global growth worked against the equity market, while the bond market delivered modest positive returns. Though the market s appetite for risk remained healthy for most of the reporting period, risk-taking declined sharply later in the reporting period. As a result, bonds held their value better than stocks, which posted negative returns across the globe. Shorter-term, higher-quality securities led the bond market, and U.S. equities outperformed most international stock markets.

Volatility rose in emerging market stocks, as the rising U.S. dollar and higher interest rates in the U.S. disrupted economic growth abroad. U.S.-China trade relations and debt concerns adversely affected the Chinese stock market, while Turkey and Argentina became embroiled in currency crises, largely due to hyperinflation in both countries. An economic slowdown in Europe also led to negative performance for European equities.

Volatility in the U.S. equity market spiked in October, as a wide range of risks were brought to bear on markets, ranging from rising interest rates and slowing global growth to heightened trade tensions and political turmoil in several countries, including the United States. These risks manifested in a broad based sell-off in December, leading to the worst December performance on record since 1931.

By comparison, fixed income securities delivered modest positive returns with relatively low volatility. In fixed income markets, short-term U.S. Treasury interest rates rose the fastest, while longer-term rates were relatively unchanged. This led to positive returns for U.S. Treasuries and a substantial flattening of the yield curve. Although the credit fundamentals in corporate markets remained relatively solid, investment-grade and high-yield bonds trailed U.S. Treasuries.

The U.S. Federal Reserve (the Fed) increased short-term interest rates four times during the reporting period. The Fed also continued to reduce its balance sheet, gradually reversing the unprecedented stimulus measures it enacted after the financial crisis. By our estimation, the Fed s neutral interest rate (the theoretical rate that is neither stimulative nor restrictive to the economy) is approximately 3.5%. The Fed funds rate is currently at 2.5%, which is stimulative to the economy. At its latest meeting in late January, the Fed left interest rates unchanged and signaled a slower pace of rate hikes in response to the global economic slowdown. Relatively low inflation gives the Fed room to maintain support for the economy until the economic data builds the case for changing interest rates.

Although fears of recession drove equity volatility higher at the end of 2018, we continue to believe the probability of recession in 2019 remains relatively low. Economic growth and global earnings are likely to slow somewhat in 2019 the tax cut stimulus will be less pronounced, and the Fed s rate hikes in 2018 will gain traction in 2019. Trade frictions look more baked into asset prices than a year ago, but markets may be overlooking European political risks. Consequently, we are cautious on European equities, as European unity remains tenuous with a history of flare-ups. We continue to prefer to take risk in U.S. and emerging market equities. Within U.S. equities, we believe that companies with high-quality earnings and strong balance sheets offer the most attractive risk/reward trade-off. We also favor short-term bonds over long-term bonds because they offer nearly equivalent yields with far lower volatility.

In this environment, investors need to think globally, extend their scope across a broad array of asset classes, and be nimble as market conditions change. We encourage you to talk with your financial advisor and visit **blackrock.com** for further insight about investing in today s markets.

Sincerely,

Rob Kapito

President, BlackRock Advisors, LLC

Rob Kapito

President, BlackRock Advisors, LLC

Total Returns as of January 31, 2019

	6-month	**12-month**
U.S. large cap equities (S&P 500® Index)	(3.00)%	(2.31)%
U.S. small cap equities (Russell 2000® Index)	(9.62)	(3.52)
International equities (MSCI Europe, Australasia, Far East Index)	(7.80)	(12.51)
Emerging market equities (MSCI Emerging Markets Index)	(2.60)	(14.24)
3-month Treasury bills (ICE BofAML 3-Month U.S. Treasury Bill Index)	1.10	1.95
U.S. Treasury securities (ICE BofAML 10-Year U.S. Treasury Index)	4.20	3.21
U.S. investment grade bonds (Bloomberg Barclays U.S. Aggregate Bond Index)	2.71	2.25
Tax-exempt municipal bonds (S&P Municipal Bond Index)	1.86	3.08
U.S. high yield bonds (Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index)	1.07	1.73

Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

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Municipal Market Overview For the Reporting Period Ended January 31, 2019

Municipal Market Conditions

Municipal bonds experienced positive performance during the period, despite challenged total returns during most of 2018 as interest rates moved higher on the back of continued Fed policy normalization, fiscal stimulus, strong economic growth, and increased U.S. Treasury issuance. Performance turned particularly strong late in the year, with interest rates rallying as the Fed began to indicate a pivot from forecast based to data driven policy and the potential for a slower pace of future rate hikes. During the period, demand for the asset class remained firm, although displayed some bouts of volatility. Broadly, investors favored the tax-exempt income, diversification, quality, and value of municipal bonds given that tax reform ultimately lowered the top individual tax rate just 2.6% while eliminating deductions. During the 12 months ended January 31, 2019, municipal bond funds experienced net inflows of approximately $2.7 billion (based on data from the Investment Company Institute).

For the same 12-month period, total new issuance underwhelmed from a historical perspective at $315 billion (below the $394 billion issued in the prior 12-month period), a direct result of the elimination of advanced refundings through the 2017 Tax Cuts and Jobs Act. This shift transitioned the market from an existing net positive supply environment to a much more favorable net negative supply environment in which reinvestment income (coupons, calls, and maturities) largely outstripped gross issuance and provided a powerful technical tailwind.

S&P Municipal Bond Index
Total Returns as of January 31, 2019
6 months: 1.86%
12 months: 3.08%

A Closer Look at Yields

From January 31, 2018 to January 31, 2019, yields on AAA-rated 30-year municipal bonds increased by 11 basis points (bps) from 2.91% to 3.02%, while 10-year rates decreased by 18 bps from 2.35% to 2.17% and 5-year rates decreased by 7 bps from 1.83% to 1.76% (as measured by Thomson Municipal Market Data). The municipal yield curve was nearly unchanged over the 12-month period with the spread between 2- and 30-year maturities bear steepening just 1 bp, which is significant given that the corresponding U.S. Treasury curve bear flattened 26 bps. (Bear steepening is the widening of the yield curve caused by long-term rates increasing at a faster rate than short-term rates. Bear flattened is a yield-rate environment in which short-term interest rates are increasing at a faster rate than long-term interest rates.) The municipal yield curve is now more than 2.5 times steeper than the U.S. Treasury curve.

During the same time period, on a relative basis, tax-exempt municipal bonds strongly outperformed U.S. Treasuries, driven by the front and intermediate portions of the yield curve. The relative positive performance of municipal bonds was driven largely by a supply/demand imbalance within the municipal market as investors sought income, incremental yield, and tax shelter in an environment where opportunities became increasingly scarce. The asset class is known for its lower relative volatility and preservation of principal with an emphasis on income as tax rates rise.

Financial Conditions of Municipal Issuers

The majority of municipal credits remain strong, despite well-publicized problems among a few issuers. Four of the five states with the largest amount of debt outstanding California, New York, Texas and Florida continue to exhibit improved credit fundamentals. However, several states with the largest unfunded pension liabilities are faced with elevated borrowing costs and difficult budgetary decisions. Across the country on the local level, property values support credit stability. Standard & Poor s recent decision to remove its negative outlook on New Mexico underscores the improvement in state finances as it was the only remaining state with the designation. Revenue bonds continue to drive performance as investors continue to seek higher yield bonds in the tobacco sector. BlackRock maintains the view that municipal bond defaults will remain minimal and in the periphery while the overall market is fundamentally sound. We continue to advocate careful credit research and believe that a thoughtful approach to structure and security selection remains imperative amid uncertainty in a modestly improving economic environment.

The opinions expressed are those of BlackRock as of January 31, 2019, and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of any individual holdings or market sectors. Investing involves risk including loss of principal. Bond values fluctuate in price so the value of your investment can go down depending on market conditions. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. There may be less information on the financial condition of municipal issuers than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.

The Standard & Poor s Municipal Bond Index, a broad, market value-weighted index, seeks to measure the performance of the U.S. municipal bond market. All bonds in the index are exempt from U.S. federal income taxes or subject to the AMT. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index.

The Benefits and Risks of Leveraging

The Funds may utilize leverage to seek to enhance the distribution rate on, and net asset value (NAV) of, their common shares (Common Shares). However, there is no guarantee that these objectives can be achieved in all interest rate environments.

In general, the concept of leveraging is based on the premise that the financing cost of leverage, which is based on short-term interest rates, is normally lower than the income earned by a Fund on its longer-term portfolio investments purchased with the proceeds from leverage. To the extent that the total assets of the Funds (including the assets obtained from leverage) are invested in higher-yielding portfolio investments, the Funds shareholders benefit from the incremental net income. The interest earned on securities purchased with the proceeds from leverage is paid to shareholders in the form of dividends, and the value of these portfolio holdings is reflected in the per share NAV.

To illustrate these concepts, assume a Fund s Common Shares capitalization is $100 million and it utilizes leverage for an additional $30 million, creating a total value of $130 million available for investment in longer-term income securities. If prevailing short-term interest rates are 3% and longer-term interest rates are 6%, the yield curve has a strongly positive slope. In this case, a Fund s financing costs on the $30 million of proceeds obtained from leverage are based on the lower short-term interest rates. At the same time, the securities purchased by a Fund with the proceeds from leverage earn income based on longer-term interest rates. In this case, a Fund s financing cost of leverage is significantly lower than the income earned on a Fund s longer-term investments acquired from such leverage proceeds, and therefore the holders of Common Shares (Common Shareholders) are the beneficiaries of the incremental net income.

However, in order to benefit Common Shareholders, the return on assets purchased with leverage proceeds must exceed the ongoing costs associated with the leverage. If interest and other costs of leverage exceed the Funds return on assets purchased with leverage proceeds, income to shareholders is lower than if the Funds had not used leverage. Furthermore, the value of the Funds portfolio investments generally varies inversely with the direction of long-term interest rates, although other factors can influence the value of portfolio investments. In contrast, the value of the Funds obligations under their respective leverage arrangements generally does not fluctuate in relation to interest rates. As a result, changes in interest rates can influence the Funds NAVs positively or negatively. Changes in the future direction of interest rates are very difficult to predict accurately, and there is no assurance that the Funds intended leveraging strategy will be successful.

The use of leverage also generally causes greater changes in each Fund s NAV, market price and dividend rates than comparable portfolios without leverage. In a declining market, leverage is likely to cause a greater decline in the NAV and market price of a Fund s Common Shares than if the Fund were not leveraged. In addition, each Fund may be required to sell portfolio securities at inopportune times or at distressed values in order to comply with regulatory requirements applicable to the use of leverage or as required by the terms of leverage instruments, which may cause the Fund to incur losses. The use of leverage may limit a Fund s ability to invest in certain types of securities or use certain types of hedging strategies. Each Fund incurs expenses in connection with the use of leverage, all of which are borne by Common Shareholders and may reduce income to the Common Shares. Moreover, to the extent the calculation of the Funds investment advisory fees includes assets purchased with the proceeds of leverage, the investment advisory fees payable to the Funds investment adviser will be higher than if the Funds did not use leverage.

To obtain leverage, each Fund has issued Variable Rate Demand Preferred Shares (VRDP Shares) or Variable Rate Muni Term Preferred Shares (VMTP Shares) (collectively, Preferred Shares) and/or leveraged its assets through the use of tender option bond trusts (TOB Trusts) as described in the Notes to Financial Statements.

Under the Investment Company Act of 1940, as amended (the 1940 Act), each Fund is permitted to issue debt up to 33 1/3% of its total managed assets or equity securities (e.g., Preferred Shares) up to 50% of its total managed assets. A Fund may voluntarily elect to limit its leverage to less than the maximum amount permitted under the 1940 Act. In addition, a Fund may also be subject to certain asset coverage, leverage or portfolio composition requirements imposed by the Preferred Shares governing instruments or by agencies rating the Preferred Shares, which may be more stringent than those imposed by the 1940 Act.

If a Fund segregates or designates on its books and records cash or liquid assets having a value not less than the value of a Fund s obligations under the TOB Trust (including accrued interest), then the TOB Trust is not considered a senior security and is not subject to the foregoing limitations and requirements imposed by the 1940 Act.

Derivative Financial Instruments

The Funds may invest in various derivative financial instruments. These instruments are used to obtain exposure to a security, commodity, index, market, and/or other assets without owning or taking physical custody of securities, commodities and/or other referenced assets or to manage market, equity, credit, interest rate, foreign currency exchange rate, commodity and/or other risks. Derivative financial instruments may give rise to a form of economic leverage and involve risks, including the imperfect correlation between the value of a derivative financial instrument and the underlying asset, possible default of the counterparty to the transaction or illiquidity of the instrument. The Funds successful use of a derivative financial instrument depends on the investment adviser s ability to predict pertinent market movements accurately, which cannot be assured. The use of these instruments may result in losses greater than if they had not been used, may limit the amount of appreciation a Fund can realize on an investment and/or may result in lower distributions paid to shareholders. The Funds investments in these instruments, if any, are discussed in detail in the Notes to Financial Statements.

Fund Summary as of January 31, 2019 **BlackRock MuniHoldings California Quality Fund, Inc.**

Fund Overview

BlackRock MuniHoldings California Quality Fund, Inc. s (MUC) (the Fund) investment objective is to provide shareholders with current income exempt from U.S. federal income taxes and California personal income taxes. The Fund seeks to achieve its investment objective by investing primarily in municipal obligations exempt from U.S. federal income taxes (except that the interest may be subject to the U.S. federal alternative minimum tax) and California personal income taxes. Under normal market conditions, the Fund invests at least 80% of its assets in investment grade municipal obligations with remaining maturities of one year or more at the time of investment. The municipal obligations in which the Fund primarily invests are either rated investment grade quality, or are considered by the Fund s investment adviser to be of comparable quality, at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

Fund Information

Symbol on New York Stock Exchange (NYSE)	MUC
Initial Offering Date	February 27, 1998
Yield on Closing Market Price as of January 31, 2019 ($12.80)[(a)]	4.45%
Tax Equivalent Yield[(b)]	9.69%
Current Monthly Distribution per Common Share[(c)]	$0.0475
Current Annualized Distribution per Common Share[(c)]	$0.5700
Economic Leverage as of January 31, 2019[(d)]	41%

(a) Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

(b) Tax equivalent yield assumes the maximum marginal U.S. federal and state tax rate of 54.1%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

(c) The distribution rate is not constant and is subject to change.

(d) Represents VMTP Shares and TOB Trusts as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VMTP Shares and TOB Trusts, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 5.

Performance

Returns for the six months ended January 31, 2019 were as follows:

	Returns Based On	
	Market Price	*NAV*
MUC[(a)(b)]	0.23%	0.71%

Lipper California Municipal Debt Funds[c]	2.77	0.80

[a] All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices.
[b] The Fund s discount to NAV widened during the period, which accounts for the difference between performance based on market price and performance based on NAV.
[c] Average return. Returns reflect reinvestment of dividends and/or distributions at NAV on the ex-dividend date as calculated by Lipper.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

The following discussion relates to the Fund s absolute performance based on NAV:

After performing poorly through the first half of the period, municipal bonds recovered to post a positive total return for the full six months. The initial downturn was largely brought about by concerns that the Fed would raise interest rates aggressively in 2019. However, subsequent signs of slowing growth prompted investors to adjust their expectations in favor of more accommodative Fed policy, sparking a rally across the bond market from early November onward.

California municipal bonds lagged the national market. However, the state s debt gained a measure of support from strong demand among retail investors looking for tax-exempt income in a state with the country s most punitive income tax regime. The credit quality of state and local authorities remained consistent, but investors were alert for any changes in fiscal responsibility demonstrated by the new governor and his administration.

The Fund s positions in the school district, local tax-backed and transportation sectors contributed to performance. An overweight in the higher-grade AA and A rated credit categories, which outperformed BBB rated debt, also contributed to performance. The Fund s quality mandate restricts it from holding issues rated lower than BBB.

Income made a meaningful contribution to performance relative to price appreciation. The Fund s use of leverage augmented the contribution from income.

The Fund sought to manage interest rate risk using U.S. Treasury futures. Given that Treasury yields fell, as prices rose, this strategy detracted from the Fund s return.

The Fund maintained exposure to bonds with longer maturities and shorter call dates that it purchased when yields were higher. While these bonds have above-average income, their lower interest-rate sensitivity hurt their performance in the past six months given the decline in prevailing yields. (Prices and yields move in opposite directions.)

An overweight to the long end of the yield curve detracted from performance, as bonds with maturities of 10 years and less generally outperformed longer-dated securities.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Market Price and Net Asset Value Per Share Summary

	01/31/19	*07/31/18*	*Change*	*High*	*Low*
Market Price	$ 12.80	$ 13.07	(2.07)%	$ 13.26	$ 12.10
Net Asset Value	14.79	15.03	(1.60)	15.03	14.45

Market Price and Net Asset Value History For the Past Five Years

Overview of the Fund s Total Investments*

SECTOR ALLOCATION

Sector	*01/31/19*	*07/31/18*
County/City/Special District/School District	35%	37%
Health	20	19
Transportation	16	13
Utilities	15	16
Education	7	8
State	5	6
Tobacco	2	
Corporate		1

For Fund compliance purposes, the Fund s sector classifications refer to one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by the investment adviser. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

CALL/MATURITY SCHEDULE [(c)]

Calendar Year Ended December 31,	
2019	13%
2020	4
2021	13
2022	6
2023	8

(c) Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.
* Excludes short-term securities.

CREDIT QUALITY ALLOCATION (a)

Credit Rating	*01/31/19*	*07/31/18*
AAA/Aaa	13%	14%
AA/Aa	69	67
A	12	12
BBB/Baa	2	2
N/R	4	5(b)

(a) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either Standard & Poor s (S&P) or Moody s Investors Service (Moody s) if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

(b) The investment adviser evaluates the credit quality of unrated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments. Using this approach, the investment adviser has deemed certain of these unrated securities as investment grade quality. As of July 31, 2018, the market value of unrated securities deemed by the investment adviser to be investment grade represented less than 1% of the Fund s total investments.

Fund Overview

BlackRock MuniHoldings New Jersey Quality Fund, Inc. s (MUJ) (the Fund) investment objective is to provide shareholders with current income exempt from U.S. federal income tax and New Jersey personal income taxes. The Fund seeks to achieve its investment objective by investing primarily in long-term, investment grade municipal obligations exempt from U.S federal income taxes (except that the interest may be subject to the U.S. federal alternative minimum tax) and New Jersey personal income taxes. The municipal obligations in which the Fund primarily invests are either rated investment grade quality, or are considered by the Fund s investment adviser to be of comparable quality, at the time of investment. Under normal market conditions, the Fund invests at least 80% of its assets in municipal obligations with remaining maturities of one year or more at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

Fund Information

Symbol on NYSE	MUJ
Initial Offering Date	March 11, 1998
Yield on Closing Market Price as of January 31, 2019 ($12.99)[a]	4.85%
Tax Equivalent Yield[b]	10.01%
Current Monthly Distribution per Common Share[c]	$0.0525
Current Annualized Distribution per Common Share[c]	$0.6300
Economic Leverage as of January 31, 2019[d]	40%

[a] Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

[b] Tax equivalent yield assumes the maximum marginal U.S. federal and state tax rate of 51.55%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

[c] The distribution rate is not constant and is subject to change.

[d] Represents VRDP Shares and TOB Trusts as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VRDP Shares and TOB Trusts, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 5.

Performance

Returns for the six months ended January 31, 2019 were as follows:

	Returns Based On	
	Market Price	*NAV*
MUJ[a][b]	3.21%	1.89%

Lipper New Jersey Municipal Debt Funds[c]	4.02	1.61

[a] All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices.
[b] The Fund s discount to NAV narrowed during the period, which accounts for the difference between performance based on market price and performance based on NAV.
[c] Average return. Returns reflect reinvestment of dividends and/or distributions at NAV on the ex-dividend date as calculated by Lipper.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

The following discussion relates to the Fund s absolute performance based on NAV:

After performing poorly through the first half of the period, municipal bonds recovered to post a positive total return for the full six months. The initial downturn was largely brought about by concerns that the Fed would raise interest rates aggressively in 2019. However, subsequent signs of slowing growth prompted investors to adjust their expectations in favor of more accommodative Fed policy, sparking a rally across the bond market from early November onward.

The credit ratings and yield spreads on New Jersey s debt continued to reflect the state s high unfunded pension liabilities. In addition, slowing revenues created challenges in balancing the state s budget for the 2020 fiscal year.

The Fund s positions in the state tax-backed, transportation and education sectors contributed to performance, while its allocation to the tobacco sector, while limited, detracted.

The Fund s allocation to higher-rated issues, which outpaced lower-quality bonds, aided results.

Income made a meaningful contribution to performance relative to price appreciation. The Fund s use of leverage augmented the contribution from income.

The Fund sought to manage interest rate risk using U.S. Treasury futures. Given that U.S. Treasury yields fell, as prices rose, this strategy detracted from the Fund s return.

Reinvestment had an adverse effect on the Fund s income, as the proceeds of higher-yielding bonds that matured or were called needed to be reinvested at lower prevailing rates.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Market Price and Net Asset Value Per Share Summary

	01/31/19	*07/31/18*	*Change*	*High*	*Low*
Market Price	$ 12.99	$ 12.90	0.70%	$ 13.07	$ 12.25
Net Asset Value	15.19	15.28	(0.59)	15.28	14.75

Market Price and Net Asset Value History For the Past Five Years

Overview of the Fund s Total Investments*

SECTOR ALLOCATION

Sector	*01/31/19*	*07/31/18*
Transportation	27%	28%
Education	18	18
State	18	18
County/City/Special District/School District	14	14
Health	10	10
Housing	5	5
Utilities	3	3
Corporate	3	2
Tobacco	2	2

For Fund compliance purposes, the Fund s sector classifications refer to one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by the investment adviser. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

CALL/MATURITY SCHEDULE (c)

Calendar Year Ended December 31,	
2019	5%
2020	8
2021	16
2022	9
2023	9

(c) Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

* Excludes short-term securities.

CREDIT QUALITY ALLOCATION [(a)]

Credit Rating	*01/31/19*	*07/31/18*
AAA/Aaa	7%	7%
AA/Aa	36	38
A	19	21
BBB/Baa	33	30
N/R	5[(b)]	4

(a) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either S&P or Moody s if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

(b) The investment adviser evaluates the credit quality of unrated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments. Using this approach, the investment adviser has deemed certain of these unrated securities as investment grade quality. As of January 31, 2019, the market value of unrated securities deemed by the investment adviser to be investment grade represents 2% of the Fund s total investments.

Fund Overview

BlackRock MuniYield Investment Quality Fund s (MFT) (the Fund) investment objective is to provide shareholders with as high a level of current income exempt from U.S. federal income taxes as is consistent with its investment policies and prudent investment management. The Fund seeks to achieve its investment objective by investing at least 80% of its assets in municipal obligations exempt from U.S. federal income taxes (except that the interest may be subject to the U.S. federal alternative minimum tax). Under normal market conditions, the Fund invests primarily in long-term municipal obligations that are investment grade quality, or are considered by the Fund s investment adviser to be of comparable quality, at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

Fund Information

Symbol on NYSE	MFT
Initial Offering Date	October 30, 1992
Yield on Closing Market Price as of January 31, 2019 ($13.10)[(a)]	5.40%
Tax Equivalent Yield[(b)]	9.12%
Current Monthly Distribution per Common Share[(c)]	$0.0590
Current Annualized Distribution per Common Share[(c)]	$0.7080
Economic Leverage as of January 31, 2019[(d)]	43%

(a) Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

(b) Tax equivalent yield assumes the maximum marginal U.S. federal tax rate of 40.8%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

(c) The distribution rate is not constant and is subject to change.

(d) Represents VMTP Shares and TOB Trusts as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VMTP Shares and TOB Trusts, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 5.

Performance

Returns for the six months ended January 31, 2019 were as follows:

	Returns Based On	
	Market Price	*NAV*
MFT[(a)(b)]	3.41%	1.15%
Lipper General & Insured Municipal Debt Funds (Leveraged)[(c)]	2.46	0.94

(a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices.
(b) The Fund s discount to NAV narrowed during the period, which accounts for the difference between performance based on market price and performance based on NAV.
(c) Average return. Returns reflect reinvestment of dividends and/or distributions at NAV on the ex-dividend date as calculated by Lipper.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

The following discussion relates to the Fund s absolute performance based on NAV:

After performing poorly through the first half of the period, municipal bonds recovered to post a positive total return for the full six months. The initial downturn was largely brought about by concerns that the Fed would raise interest rates aggressively in 2019. However, subsequent signs of slowing growth prompted investors to adjust their expectations in favor of more accommodative Fed policy, sparking a rally across the bond market from early November onward.

Income, which was enhanced by leverage, was the largest contributor to Fund performance. However, the cost of leverage became more expensive during the period due to the Fed s two interest rate increases.

Positions in short-dated maturities were top performers on a price basis, as yields fell the most for bond with maturities of ten years and below. (Prices and yields move in opposite directions.) Longer-dated maturities, while experiencing less price appreciation than short-term issues, provided the Fund with an attractive level of income.

At the sector level, positions in transportation issues particularly higher-quality debt were contributors. Conversely, an allocation to the tobacco sector was a slight detractor. The sector experienced yield spread widening, which led to poor performance relative to other market segments.

The Fund s higher-quality mandate proved beneficial given that higher-rated bonds outperformed in the period.

The Fund sought to manage interest rate risk using U.S. Treasury futures. Given that U.S. Treasury yields fell, as prices rose, this strategy detracted from the Fund s return.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Market Price and Net Asset Value Per Share Summary

	01/31/19	*07/31/18*	*Change*	*High*	*Low*
Market Price	$ 13.10	$ 13.03	0.54%	$ 13.15	$ 11.84
Net Asset Value	13.67	13.90	(1.65)	13.90	13.41

Market Price and Net Asset Value History For the Past Five Years

Overview of the Fund s Total Investments*

SECTOR ALLOCATION

Sector	*01/31/19*	*07/31/18*
Transportation	36%	34%
Utilities	15	18
Health	14	12
County/City/Special District/School District	14	16
State	8	9
Housing	6	4
Tobacco	3	2
Corporate	3	1
Education	1	4

For Fund compliance purposes, the Fund s sector classifications refer to one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by the investment adviser. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

CALL/MATURITY SCHEDULE (c)

Calendar Year Ended December 31,	
2019	15%
2020	4
2021	19
2022	2
2023	21

(c) Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

* Excludes short-term securities.

CREDIT QUALITY ALLOCATION (a)

Credit Rating	*01/31/19*	*07/31/18*
AAA/Aaa	4%	5%
AA/Aa	50	54
A	27	23
BBB/Baa	13	12
N/R(b)	6	6

(a) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either S&P or Moody s if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

(b) The investment adviser evaluates the credit quality of unrated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments. Using this approach, the investment adviser has deemed certain of these unrated securities as investment grade quality. As of January 31, 2019 and July 31, 2018, the market value of unrated securities deemed by the investment adviser to be investment grade each represents 1% of the Fund s total investments.

Fund Overview

BlackRock MuniYield Michigan Quality Fund, Inc. s (MIY) (the Fund) investment objective is to provide shareholders with as high a level of current income exempt from U.S. federal and Michigan income taxes as is consistent with its investment policies and prudent investment management. The Fund seeks to achieve its investment objective by investing at least 80% of its assets in municipal obligations exempt from U.S. federal income taxes (except that the interest may be subject to the U.S. federal alternative minimum tax) and Michigan income taxes. Under normal market conditions, the Fund invests primarily in long-term municipal obligations that are investment grade quality, or are considered by the Fund s investment adviser to be of comparable quality, at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

Fund Information

Symbol on NYSE	MIY
Initial Offering Date	October 30, 1992
Yield on Closing Market Price as of January 31, 2019 ($12.81)[a]	4.87%
Tax Equivalent Yield[b]	8.86%
Current Monthly Distribution per Common Share[c]	$0.0520
Current Annualized Distribution per Common Share[c]	$0.6240
Economic Leverage as of January 31, 2019[d]	39%

[a] Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

[b] Tax equivalent yield assumes the maximum marginal U.S. federal and state tax rate of 45.05%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

[c] The distribution rate is not constant and is subject to change.

[d] Represents VRDP Shares and TOB Trusts as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VRDP Shares and TOB Trusts, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 5.

Performance

Returns for the six months ended January 31, 2019 were as follows:

	Returns Based On	
	Market Price	*NAV*
MIY[a][b]	1.85%	1.95%
Lipper Other States Municipal Debt Funds[c]	1.42	1.34

(a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices.
(b) The Fund s discount to NAV widened during the period, which accounts for the difference between performance based on market price and performance based on NAV.
(c) Average return. Returns reflect reinvestment of dividends and/or distributions at NAV on the ex-dividend date as calculated by Lipper.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

The following discussion relates to the Fund s absolute performance based on NAV:

After performing poorly through the first half of the period, municipal bonds recovered to post a positive total return for the full six months. The initial downturn was largely brought about by concerns that the Fed would raise interest rates aggressively in 2019. However, subsequent signs of slowing growth prompted investors to adjust their expectations in favor of more accommodative Fed policy, sparking a rally across the bond market from early November onward.

Michigan municipal bonds outperformed the national market due to the state s improving economy and modest amount of new-issue supply. Michigan s economy continued to improve, and its unemployment rate was only slightly above the national average. In addition, its budget for the 2019 fiscal year was structurally balanced and featured a conservative revenue forecast.

Portfolio income, enhanced by leverage, made the largest contribution to Fund s return. The Fund s position in bonds with five- to 10-year maturities also contributed, as yields in this area declined. In contrast, yields for both short- and long-term issues were largely unchanged. (Prices and yields move in opposite directions.)

At the sector level, positions in transportation issues were key contributors to performance.

The Fund sought to manage interest rate risk using U.S. Treasury futures. Given that U.S. Treasury yields fell, as prices rose, this strategy detracted from the Fund s return.

The Fund s allocation to lower-rated securities also hurt results given that yield spreads generally widened in the period.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Market Price and Net Asset Value Per Share Summary

	01/31/19	*07/31/18*	*Change*	*High*	*Low*
Market Price	$ 12.81	$ 12.89	(0.62)%	$ 12.91	$ 12.15
Net Asset Value	14.96	15.04	(0.53)	15.04	14.54

Market Price and Net Asset Value History For the Past Five Years

Overview of the Fund s Total Investments*

SECTOR ALLOCATION

Sector	*01/31/19*	*07/31/18*
Health	24%	25%
Education	22	22
County/City/Special District/School District	18	18
State	17	13
Utilities	10	10
Housing	4	4
Transportation	3	6
Corporate	2	2

For Fund compliance purposes, the Fund s sector classifications refer to one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by the investment adviser. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

CALL/MATURITY SCHEDULE (c)

Calendar Year Ended December 31,	
2019	6%
2020	3
2021	17
2022	8
2023	15

(c) Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

* Excludes short-term securities.

CREDIT QUALITY ALLOCATION (a)

Credit Rating	*01/31/19*	*07/31/18*
AAA/Aaa	2%	3%
AA/Aa	66	69
A	23	22
BBB/Baa	4	3
N/R	5	3(b)

(a) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either S&P or Moody s if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

(b) The investment adviser evaluates the credit quality of not-rated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments. Using this approach, the investment adviser has deemed certain of these unrated securities as investment grade quality. As of July 31, 2018, the market value of unrated securities deemed by the investment adviser to be investment grade represented less than 1% of the Fund s total investments.

Fund Summary as of January 31, 2019 **BlackRock MuniYield Pennsylvania Quality Fund**

Fund Overview

BlackRock MuniYield Pennsylvania Quality Fund s (MPA) (the Fund) investment objective is to provide shareholders with as high a level of current income exempt from U.S. federal and Pennsylvania income taxes as is consistent with its investment policies and prudent investment management. The Fund seeks to achieve its investment objective by investing at least 80% of its assets in municipal obligations exempt from U.S. federal income taxes (except that the interest may be subject to the U.S. federal alternative minimum tax) and Pennsylvania income taxes. Under normal market conditions, the Fund invests primarily in long-term municipal obligations that are investment grade quality, or are considered by the Fund s investment adviser to be of comparable quality, at the time of investment. The Fund may invest directly in such securities or synthetically through the use of derivatives.

No assurance can be given that the Fund s investment objective will be achieved.

Fund Information

Symbol on NYSE	MPA
Initial Offering Date	October 30, 1992
Yield on Closing Market Price as of January 31, 2019 ($13.19)[a]	4.82%
Tax Equivalent Yield[b]	8.59%
Current Monthly Distribution per Common Share[c]	$0.0530
Current Annualized Distribution per Common Share[c]	$0.6360
Economic Leverage as of January 31, 2019[d]	41%

[a] Yield on closing market price is calculated by dividing the current annualized distribution per share by the closing market price. Past performance does not guarantee future results.

[b] Tax equivalent yield assumes the maximum marginal U.S. federal and state tax rate of 43.87%, which includes the 3.8% Medicare tax. Actual tax rates will vary based on income, exemptions and deductions. Lower taxes will result in lower tax equivalent yields.

[c] The distribution rate is not constant and is subject to change.

[d] Represents VRDP Shares and TOB Trusts as a percentage of total managed assets, which is the total assets of the Fund, including any assets attributable to VRDP Shares and TOB Trusts, minus the sum of accrued liabilities. For a discussion of leveraging techniques utilized by the Fund, please see The Benefits and Risks of Leveraging on page 5.

Performance

Returns for the six months ended January 31, 2019 were as follows:

	Returns Based On	
	Market Price	*NAV*
MPA[a][b]	2.03%	1.97%
Lipper Pennsylvania Municipal Debt Funds[c]	2.64	1.68

(a) All returns reflect reinvestment of dividends and/or distributions at actual reinvestment prices.
(b) The Fund s discount to NAV narrowed during the period, which accounts for the difference between performance based on market price and performance based on NAV.
(c) Average return. Returns reflect reinvestment of dividends and/or distributions at NAV on the ex-dividend date as calculated by Lipper.

Performance results may include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles.

Past performance is not indicative of future results.

The following discussion relates to the Fund s absolute performance based on NAV:

After performing poorly through the first half of the period, municipal bonds recovered to post a positive total return for the full six months. The initial downturn was largely brought about by concerns that the Fed would raise interest rates aggressively in 2019. However, subsequent signs of slowing growth prompted investors to adjust their expectations in favor of more accommodative Fed policy, sparking a rally across the bond market from early November onward.

Pennsylvania bonds outperformed the national index as improving fundamentals and a decrease in new-issue supply led to tighter yield spreads. The budget season was less acrimonious than in years past, and the state made the first significant deposit into its rainy day fund since 2009.

The Fund s positions in the health care, school district and education sectors contributed to Fund performance. The Fund s allocation to higher-rated issues, which outpaced lower-quality bonds, also aided results.

Income made a meaningful contribution to performance relative to price appreciation. The Fund s use of leverage augmented the contribution from income.

The Fund sought to manage interest rate risk using U.S. Treasury futures. Given that U.S. Treasury yields fell, as prices rose, this strategy detracted from the Fund s return.

Reinvestment had an adverse effect on the Fund s income, as the proceeds of higher-yielding bonds that matured or were called needed to be reinvested at lower prevailing rates.

The views expressed reflect the opinions of BlackRock as of the date of this report and are subject to change based on changes in market, economic or other conditions. These views are not intended to be a forecast of future events and are no guarantee of future results.

Market Price and Net Asset Value Per Share Summary

	01/31/19	*07/31/18*	*Change*	*High*	*Low*
Market Price	$ 13.19	$ 13.26	(0.53)%	$ 13.34	$ 12.30
Net Asset Value	15.18	15.27	(0.59)	15.27	14.70

Market Price and Net Asset Value History For the Past Five Years

Overview of the Fund s Total Investments*

SECTOR ALLOCATION

Sector	*01/31/19*	*07/31/18*
Education	23%	23%
Health	22	18
County/City/Special District/School District	18	17
Transportation	13	13
State	9	13
Utilities	8	8
Housing	5	6
Corporate	1	2
Tobacco	1	

For Fund compliance purposes, the Fund s sector classifications refer to one or more of the sector sub-classifications used by one or more widely recognized market indexes or rating group indexes, and/or as defined by the investment adviser. These definitions may not apply for purposes of this report, which may combine such sector sub-classifications for reporting ease.

CALL/MATURITY SCHEDULE [(d)]

Calendar Year Ended December 31,	
2019	9%
2020	6
2021	12
2022	8
2023	5

(d) Scheduled maturity dates and/or bonds that are subject to potential calls by issuers over the next five years.

* Excludes short-term securities.

CREDIT QUALITY ALLOCATION [(a)]

Credit Rating	*01/31/19*	*07/31/18*
AAA/Aaa	1%	1%
AA/Aa	48	53
A	35	34
BBB/Baa	6	8
BB/Ba		[(b)]
N/R[(c)]	10	4

(a) For financial reporting purposes, credit quality ratings shown above reflect the highest rating assigned by either S&P or Moody s if ratings differ. These rating agencies are independent, nationally recognized statistical rating organizations and are widely used. Investment grade ratings are credit ratings of BBB/Baa or higher. Below investment grade ratings are credit ratings of BB/Ba or lower. Investments designated N/R are not rated by either rating agency. Unrated investments do not necessarily indicate low credit quality. Credit quality ratings are subject to change.

(b) Represents less than 1% of the Fund s total investments.

(c) The investment adviser evaluates the credit quality of unrated investments based upon certain factors including, but not limited to, credit ratings for similar investments and financial analysis of sectors and individual investments. Using this approach, the investment adviser has deemed certain of these unrated securities as investment grade quality. As of January 31, 2019 and July 31, 2018, the market value of unrated securities deemed by the investment adviser to be investment grade represents 2% and less than 1%, respectively, of the Fund s total investments.

Schedule of Investments (unaudited) **BlackRock MuniHoldings California Quality Fund, Inc. (MUC)**

January 31, 2019 **(Percentages shown are based on Net Assets)**

Security	*Par (000)*	*Value*
Municipal Bonds 111.8%		
California 111.8%		
Corporate 0.4%		
City of Chula Vista California, Refunding RB, San Diego Gas & Electric, Series A, 5.88%, 02/15/34	$ 2,435	$ 2,459,934
County/City/Special District/School District 32.2%		
California Municipal Finance Authority, RB, Orange County Civic Center Infrastructure Improvement Program, 5.00%, 06/01/43	2,000	2,270,920
Centinela Valley Union High School District, GO, Election of 2010, Series A, 5.75%, 08/01/21[(a)]	9,120	10,076,232
Chabot-Las Positas Community College District, GO, Election of 2016, Series A, 4.00%, 08/01/47	1,500	1,549,110
Chaffey Joint Union High School District, GO, CAB, Election of 2012, Series C[(b)]:		
0.00%, 08/01/32	250	157,338
0.00%, 08/01/33	500	297,535
0.00%, 08/01/34	510	290,277
0.00%, 08/01/35	545	296,126
0.00%, 08/01/36	500	258,725
0.00%, 08/01/37	650	321,074
0.00%, 08/01/38	625	294,575
0.00%, 08/01/39	750	336,188
0.00%, 08/01/40	1,855	791,529
0.00%, 08/01/41	305	123,961
0.00%, 02/01/42	350	138,936
City of Sacramento California Transient Occupancy Tax Revenue, RB, Convention Center Complex, Series A, 5.00%, 06/01/43	1,230	1,405,103
Coronado Community Development Agency Successor Agency, Refunding, Tax Allocation Bonds, Series A, 5.00%, 09/01/33	2,100	2,419,200
County of Kern California, COP, Capital Improvements Projects, Series A (AGC), 6.00%, 02/01/19[(a)]	3,500	3,500,000
County of Los Angeles California Public Works Financing Authority, Refunding RB, Series D, 5.00%, 12/01/45	1,430	1,595,923
County of Orange California Sanitation District, COP, Series A, 5.00%, 02/01/19[(a)]	2,500	2,500,000
County of San Joaquin California Transportation Authority, Refunding RB, Limited Tax, Measure K, Series A, 6.00%, 03/01/21[(a)]	2,665	2,903,917
County of San Luis Obispo Community College District, GO, Refunding Series B, 4.00%, 08/01/43	3,555	3,656,922
County of Santa Clara California, GO, Election of 2008, Series B, 4.00%, 08/01/43	10,225	10,438,907
Fremont Union High School District, GO, Refunding, 4.00%, 08/01/40	2,500	2,587,250
Garden Grove Unified School District, GO, Election of 2010, Series C, 5.25%, 08/01/40	5,500	6,201,140
Gavilan Joint Community College District, GO, Election of 2004, Series D[(a)]:		

5.50%, 08/01/21	2,170	2,384,309
5.75%, 08/01/21	8,400	9,280,740
Glendale Community College District, GO, Election of 2016, Series A, 4.00%, 08/01/46	8,000	8,268,960
Grossmont California Healthcare District, GO, Election of 2006, Series B, 6.13%, 07/15/21[(a)]	2,000	2,221,420
Kern Community College District, GO, Safety Repair & Improvements, Series C:		
5.25%, 11/01/32	5,715	6,576,193
5.75%, 11/01/34	12,085	14,113,105

Security	*Par (000)*	*Value*
County/City/Special District/School District (continued)		
Los Alamitos Unified School District, GO, Refunding, School Facilities Improvement:		
5.25%, 08/01/23[(a)]	$ 2,185	$ 2,528,285
5.25%, 08/01/39	1,515	1,717,146
Los Rios Community College District, GO, Election of 2008, Series A, 5.00%, 08/01/20[(a)]	11,000	11,562,430
Mount San Jacinto Community College District, GO, Series A, 5.00%, 08/01/35	3,565	4,128,377
Oxnard Union High School District, GO, Refunding, Election of 2004, Series A (AGM), 5.00%, 08/01/20[(a)]	10,000	10,511,300
Rio Elementary School District, GO, Series A (AGM), 5.25%, 08/01/40	5,865	6,784,104
Riverside County Public Financing Authority, Tax Allocation Bonds, Series A (BAM), 4.00%, 10/01/40	2,545	2,578,390
San Benito High School District, GO, Election of 2016, 4.00%, 08/01/48	5,000	5,175,850
San Diego California Unified School District, GO, CAB, Election of 2008, Series K-2[(b)]:		
0.00%, 07/01/38	2,755	1,316,284
0.00%, 07/01/39	3,340	1,525,111
0.00%, 07/01/40	4,285	1,873,188
San Diego Regional Building Authority, RB, County Operations Center & Annex, Series A, 5.50%, 02/01/19[(a)]	905	905,000
San Jose California Financing Authority, LRB, Convention Center Expansion & Renovation Project, Series A:		
5.75%, 05/01/36	2,560	2,567,526
5.75%, 05/01/42	4,500	4,859,730
San Jose California Financing Authority, Refunding LRB, Civic Center Project, Series A, 5.00%, 06/01/39	5,800	6,446,062
San Marcos Redevelopment Agency Successor Agency, Refunding, Tax Allocation Bonds, Series A:		
5.00%, 10/01/32	1,700	1,989,833
5.00%, 10/01/33	1,125	1,312,256
Santa Clarita Community College District, GO, Refunding, 4.00%, 08/01/46	10,000	10,300,400
Snowline Joint Unified School District, COP, Refunding, Refining Project (AGC), 5.75%, 09/01/19[(a)]	5,635	5,771,198
Washington Township Health Care District, GO, Election of 2004, Series B, 5.50%, 08/01/38	1,625	1,895,481
West Contra Costa California Unified School District, GO:		
Election of 2010, Series A (AGM), 5.25%, 08/01/21[(a)]	5,390	5,889,437
Election of 2010, Series B, 5.50%, 08/01/39	3,195	3,664,218
Election of 2012, Series A, 5.50%, 08/01/39	2,500	2,867,150
		195,424,371

Education 5.5%		
California Municipal Finance Authority, RB, Emerson College, 6.00%, 01/01/22[(a)]	2,750	3,096,637
California Statewide Communities Development Authority, Refunding RB:		
CHF-Irvine LLC, 5.00%, 05/15/40	750	817,688
University of California, RB, Limited Project,		
Series M, 5.00%, 05/15/47	15,000	16,938,150
University of California, Refunding RB:		
Series AO, 5.00%, 05/15/40	5,430	6,173,693
Series AZ, 4.00%, 05/15/48	6,000	6,149,520
		33,175,688
Health 18.4%		
ABAG Finance Authority for Nonprofit Corps., Refunding RB, Sharp Healthcare, Series B, 6.25%, 08/01/19[(a)]	6,305	6,449,574

Schedule of Investments (unaudited) (continued)

BlackRock MuniHoldings California Quality Fund, Inc. (MUC)

January 31, 2019

(Percentages shown are based on Net Assets)

Security	*Par (000)*	*Value*
Health (continued)		
California Health Facilities Financing Authority, RB:		
Sutter Health, Series A, 5.00%, 11/15/35	$ 1,960	$ 2,254,020
Children s Hospital, Series A, 5.25%, 11/01/41	8,000	8,721,360
Lucile Slater Packard Children s Hospital at Stanford, Series A, 4.00%, 11/15/47	825	833,498
Providence Health Services, Series B, 5.50%, 10/01/39	4,130	4,229,987
Sutter Health, Series A, 4.00%, 11/15/42	450	456,309
Sutter Health, Series B, 6.00%, 08/15/20[a]	9,655	10,306,906
California Health Facilities Financing Authority, Refunding RB:		
Dignity Health, Series A, 6.00%, 07/01/19[a]	3,700	3,766,822
Providence Health and Services, Series A, 5.00%, 10/01/38	10,970	12,315,909
St. Joseph Health System, Series A, 5.00%, 07/01/37	10,000	11,010,800
Sutter Health, Series B, 5.00%, 11/15/46	8,295	9,213,174
California Municipal Finance Authority, Refunding RB, Community Medical Centers, Series A:		
5.00%, 02/01/37	3,110	3,437,327
5.00%, 02/01/42	5,250	5,733,630
California Statewide Communities Development Authority, RB:		
Green Bond, Marin General Hospital, 4.00%, 08/01/45	2,500	2,511,225
Huntington Memorial Hospital Project, 4.00%, 07/01/48	2,220	2,204,726
California Statewide Communities Development Authority, Refunding RB:		
Front Porch Communities and Services, 4.00%, 04/01/42	3,005	3,034,088
Front Porch Communities and Services, 4.00%, 04/01/47	2,655	2,658,558
Front Porch Communities and Services, 5.00%, 04/01/47	2,995	3,309,056
John Muir Health, Series A, 5.00%, 08/15/51	1,635	1,804,075
John Muir Health, Series A, 5.00%, 12/01/53	1,000	1,108,990
John Muir Health, Series A, 5.00%, 12/01/57	1,750	1,922,637
John Muir Health, Series A, 4.00%, 12/01/57	3,250	3,205,637
Trinity Health Credit Group Composite Issue, 5.00%, 12/01/41	6,235	6,696,265
University of California Regents Medical Center Pooled Revenue, Refunding RB, Series L, 5.00%, 05/15/47	4,000	4,447,640
		111,632,213
State 8.4%		
State of California, GO:		
Various Purposes, 6.00%, 04/01/19[a]	9,820	9,891,097
Various Purposes, 6.00%, 03/01/33	5,000	5,232,950
Various Purposes, 6.00%, 04/01/38	17,945	18,061,822
Refunding, 5.00%, 08/01/45	5,690	6,363,867
Refunding Veterans Bond, 4.00%, 12/01/40	4,000	4,047,560
State of California Public Works Board, LRB:		

Security	Par (000)	Value
Department of Education, Riverside Campus Project, Series B, 6.50%, 04/01/19[a]	3,670	3,699,397
Various Capital Projects, Series I, 5.50%, 11/01/33	2,015	2,290,390
State of California Public Works Board, RB, California State Prisons, Series C, 5.75%, 10/01/31	1,205	1,326,319
		50,913,402
Tobacco 3.8%		
Golden State Tobacco Securitization Corp., Refunding RB:		
Asset-Backed, Series A (AGM), 5.00%, 06/01/40	9,765	11,062,476
Series A-1, 3.50%, 06/01/36	11,915	11,722,692
		22,785,168
Security	*Par (000)*	*Value*
Transportation 21.0%		
Alameda Corridor Transportation Authority, Refunding RB, 2nd Subordinate Lien, Series B, 5.00%, 10/01/35	$ 1,500	$ 1,668,180
Bay Area Toll Authority, Refunding RB, San Francisco Bay Area Toll Bridge Subordinate, 4.00%, 04/01/42	5,000	5,122,300
California Municipal Finance Authority, ARB, Senior Lien, Linxs APM Project, AMT, 5.00%, 12/31/43	13,915	15,178,760
City & County of San Francisco California Airports Commission, ARB, Second Series E:		
6.00%, 05/01/19[a]	745	753,106
6.00%, 05/01/39	8,905	9,001,886
City & County of San Francisco California Airports Commission, Refunding ARB, AMT, Series A:		
2nd, 5.00%, 05/01/29	6,435	7,008,230
San Francisco International Airport, 5.00%, 05/01/41	5,000	5,502,700
5.00%, 05/01/47	5,000	5,525,150
City of Los Angeles California Department of Airports, ARB:		
Los Angeles International Airport, Senior, Series D, 5.25%, 05/15/29	2,590	2,722,168
Senior Series A, AMT, 5.00%, 05/15/40	3,830	4,279,297
Series D, AMT, 5.00%, 05/15/35	2,000	2,255,400
Series D, AMT, 5.00%, 05/15/36	1,500	1,686,945
Sub-Series A, AMT, 5.00%, 05/15/47	6,725	7,475,039
City of Los Angeles California Department of Airports, Refunding ARB, Los Angeles International Airport:		
5.00%, 05/15/43	7,000	8,129,380
Senior, Series A, 5.00%, 05/15/40	3,000	3,114,690
Series A, 5.25%, 05/15/39	5,845	5,902,807
City of San Jose California, Refunding ARB, Norman Y Mineta San Jose International Airport SJC, AMT:		
Series A, 5.00%, 03/01/41	3,075	3,410,636
Series A, 5.00%, 03/01/47	11,770	12,976,190
Series A-1, 5.25%, 03/01/23	3,785	4,047,338
Series A-1, 6.25%, 03/01/34	1,400	1,511,986
County of Sacramento California Airport System Revenue, Refunding ARB:		
Airport System Subordinate Revenue, Sub-Series B, 5.00%, 07/01/41	1,250	1,391,225
Senior Series A, 5.00%, 07/01/41	2,500	2,791,150
County of San Bernardino California Transportation Authority, RB, Series A,	4,545	5,200,071

5.25%, 03/01/40		
County of San Diego Regional Airport Authority, Refunding ARB, Subordinate, Series A, 5.00%, 07/01/42	4,275	4,828,142
Port of Los Angeles California Harbor Department, RB, Series B, 5.25%, 08/01/19[(a)]	5,530	5,632,582
Port of Los Angeles California Harbor Department, Refunding RB, Series A, AMT, 5.00%, 08/01/44	500	555,095
		127,670,453
Utilities 22.1%		
Anaheim Public Financing Authority, RB, Electric System Distribution Facilities, Series A, 5.38%, 04/01/21[(a)]	2,200	2,383,282
City & County of San Francisco Public Utilities Commission Wastewater Revenue, Refunding RB, Sewer System, Series B, 4.00%, 10/01/42	3,000	3,061,320
City of Los Angeles California Department of Water & Power, RB, Power System, Series A, 5.00%, 07/01/42	8,825	10,019,287
City of Los Angeles California Department of Water & Power, Refunding RB, Water System, Series A, 5.25%, 07/01/39	16,000	17,002,720
City of Los Angeles California Wastewater System Revenue, Refunding RB, Sub-Series A:		
5.00%, 06/01/20[(a)]	1,325	1,385,235
5.00%, 06/01/28	675	703,681

Schedule of Investments (unaudited) (continued)

BlackRock MuniHoldings California Quality Fund, Inc. (MUC)

January 31, 2019

(Percentages shown are based on Net Assets)

Security	*Par (000)*	*Value*
Utilities (continued)		
City of San Francisco California Public Utilities Commission Water Revenue, RB:		
Series A, 5.00%, 11/01/39	$ 5,245	$ 5,949,561
Series B, 5.00%, 11/01/19[(a)]	10,000	10,258,500
County of Los Angeles Facilities Inc., RB, Vermont Corridor County Administration Building, Series A, 5.00%, 12/01/51	18,270	20,612,031
Dublin-San Ramon Services District Water Revenue, Refunding RB, 6.00%, 02/01/21[(a)]	4,000	

	2003	February 14 to March 31, 2004(1)	2005	2006	2007	2007	2008	2008
			(in thousands, except for ratios)					
Consolidated statement of income data:								
Sales, net(2)	$ 1,192,671	$ 1,317,580	$ 1,565,406	$ 1,794,753	$ 1,935,690	$ 380,274	$ 147,137	$ 217,730
Cost of goods sold	915,272	1,024,426	1,243,408	1,374,774	1,462,776	303,262	115,714	189,701
Selling, general and administrative expenses	147,687	220,551	170,077	205,894	210,613	45,926	65,616	27,292
Depreciation and amortization expense	14,851	18,887	37,717	32,641	35,119	8,311	3,835	6,891
Operating profit	114,861	53,716	114,204	181,444	227,182	22,775	(38,028)	(6,154)
Interest expense, net	26,081	12,478	74,213	77,825	68,378	16,907	56,176	20,503
Other (income) expense, net	(331)	(1,406)	(706)	5,264	(2,752)	(1,127)	(347)	(140)
Earnings before income taxes	89,111	42,644	40,697	98,355	161,556	6,995	(93,857)	(26,517)
Provision for (benefit from) income taxes(3)	1,745	(5,049)	15,817	34,188	60,177	2,364	(27,815)	(9,327)
Net income	$ 87,366	$ 47,693	$ 24,880	$ 64,167	$ 101,379	$ 4,631	$ (66,042)	$ (17,190)
Statement of cash flows data:								
Net cash (used in) provided by operating activities	$ 150,807	$ (18,558)	$ 105,519	$ 53,724	$ 204,217	$ 2,425	$ (42,689)	$ 1,420
Net cash used in investing activities	(811)	(1,477,622)	(24,957)	(39,343)	(14,181)	(5,009)	(3,508)	(1,942,129)
Net cash (used in) provided by financing activities	(167,856)	1,494,677	(60,639)	(26,591)	(182,650)	(875)	36,671	1,947,187
Other financial data:								
Capital expenditures	$ 16,801	$ 27,772	$ 28,806	$ 39,383	$ 26,416	$ 10,282	3,409	1,569
Ratio of earnings to fixed charges(4)	4.2x	3.8x	1.5x	2.2x	3.2x	1.4x	(5)	(5)

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	Predecessor					Successor	
	As of December 31,					As of March 31,	
	2003	2004	2005	2006	2007	2007	2008
	(in thousands)						
Consolidated balance sheet data:							
Cash and cash equivalents	$ 5,359	$ 3,856	$ 23,779	$ 11,569	$ 18,955	$ 8,110	$ 15,907
Total assets	615,558	1,544,595	1,621,537	1,623,971	1,567,617	1,663,941	3,073,390
Total debt	213,244	1,024,135	961,375	838,050	655,425	837,175	1,377,621
Redeemable preferred stock		225,000	225,570				
Shareholders equity	150,279	102,719	107,815	521,085	622,106	526,461	1,264,821

(1) The financial information for these periods reflects the combined presentation of the successor and predecessor company financial statements and are therefore unaudited non-GAAP financial measures.

(2) Sales are presented net of certain rebates paid to customers. See Management s Discussion and Analysis of Financial Condition and Results of Operations and the notes to consolidated financial statements appearing elsewhere in this prospectus.

(3) The 2003 and 2004 consolidated statements of income represent our tax provision calculated based on our previous status when incorporated under Subchapter S of the Code, with substantially all corporate earnings taxed at the shareholder level. For comparability purposes, if we had been incorporated under Subchapter C of the Code and used a pro forma tax rate of 38.5% as a C corporation, the provision for income taxes and net income would have been as set forth below:

	Year Ended December 31,	
	2003	2004
	(in thousands)	
Provision for income taxes	$ 34,308	$ 16,418
Net income	$ 54,803	$ 18,226

(4) For purposes of calculating the ratio of earnings to fixed charges, earnings represents income before taxes less capitalized interest, plus amortization of capitalized interest and fixed charges. Fixed charges include interest expense (including amortization of debt issuance costs), capitalized interest, and the portion of operating rental expense which management believes is representative of the interest component of rent expense.

(5) For the period January 1, 2008 to February 13, 2008 and the period February 14, 2008 to March 31, 2008, earnings were not adequate to cover fixed charges by $93.9 million and $26.5 million, respectively.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition includes the predecessor periods prior to the consummation of the transactions. We refer to the operations of both the predecessor and the successor as ours, unless specifically stated otherwise. You should read the following discussion and analysis in conjunction with our financial statements and related notes included above. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those set forth under Risk Factors.

Overview

We participate in the HVAC industry. We are the second largest domestic manufacturer of residential and light commercial heating and air conditioning products based on unit sales. Founded in 1975 as a manufacturer of flexible duct, we expanded into the broader HVAC manufacturing market in 1982. Since then, we have 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 is designed to be reliable and easy-to-install.

Acquisition by Chill Holdings, Inc. and Related Events

On October 21, 2007, Chill Holdings, Inc. (which we refer to as Parent), Chill Acquisition, Inc., a subsidiary of Parent (which we refer to as Merger Sub), and Goodman Global, Inc. entered into an agreement and plan of merger (the Merger Agreement) pursuant to which Merger Sub merged with and into Goodman Global, Inc. on February 13, 2008. These transactions are referred to in this prospectus as the Merger. Merger Sub was incorporated on October 15, 2007 (Inception) for the purpose of acquiring Goodman Global, Inc. and did not have any operations prior to February 13, 2008 other than in connection with the Goodman acquisition. Chill Holdings, Inc., our Parent, is controlled by investment funds affiliated with Hellman & Friedman LLC, and other stockholders include investment funds affiliated with GSO, Farallon Capital Partners, and AlpInvest Partners, along with certain other investors that GSO syndicated their investments to, as well as certain members of management. For a more complete description of the Transactions, see The Transactions, Certain Relationships and Related Party Transactions, Description of Other Indebtedness and Description of Notes. When we refer to the Transactions, we are referring to the foregoing and not the 2004 Transactions as defined below.

The Merger is being accounted for under the purchase method of accounting. Accordingly, the results of operations will be included in the consolidated financial statements from the acquisition date and are not reflected in our 2007 consolidated financial statements. Goodman has allocated the purchase price to the acquired assets and liabilities assumed at their estimated fair market value considering a number of factors. The excess of the cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. The increase in basis of the assets will result in non-cash charges in future periods, principally related to the step-up in the value of inventory, property, plant and equipment and intangible assets. The initial purchase price allocation made by Goodman is preliminary and subject to change for a period of one year following the acquisition.

2004 Transactions

On December 23, 2004, we were acquired by affiliates of Apollo Management, L.P., our senior management and certain trusts associated with members of the Goodman family (the 2004 Transactions). In connection with the 2004 Transactions, the seller sold all of its equity interest in its subsidiaries as well as substantially all of its assets and liabilities for $1,477.5 million plus a working capital adjustment of $29.8 million. The 2004 Transactions were financed with the net proceeds of a private offering of senior unsecured notes, borrowings under our senior secured credit facilities and $477.5 million of equity contributions by affiliates of Apollo, the Goodman family trusts and certain members of senior management, which consisted of $225.0 million of our

Series A Preferred Stock and $252.5 million of our common stock. As part of the equity contribution, the Goodman family trusts and members of senior management invested approximately $101.0 million and $18.2 million, respectively. In exchange for the equity contribution, affiliates of Apollo, the Goodman family trusts and certain members of our senior management received a combination of our common stock and our Series A Preferred Stock.

The 2004 Transactions were recorded as of December 23, 2004, in accordance with Statement of Financial Accounting Standard, or SFAS, No. 141, Business Combinations, and Emerging Issues Task Force, or EITF, 88-16, Basis in Leveraged Buyout Transactions. As such, the acquired assets and assumed liabilities were recorded at fair value for the interests acquired and estimates of assumed liabilities by the new investors and at the carrying basis for continuing investors. The acquired assets and assumed liabilities were assigned new book values in the same proportion as the residual interests of the continuing investors and the new interests acquired by the new investors. Under EITF 88-16, we revalued the net assets at the acquisition date to the extent of the new investors ownership of 79%. The remaining 21% ownership was accounted for at the continuing investors carrying basis of the company. An adjustment of $144.6 million to record this effect was included as a reduction of shareholders equity. The excess of the purchase price over the historical basis of the net assets acquired was applied to adjust net assets to their fair market values to the extent of the new investors 79% ownership, with the remainder of $391.3 million allocated to goodwill. The increase in basis of the assets will result in non-cash charges in future periods, principally related to the step-up in the value of property, plant and equipment and intangible assets.

On April 11, 2006, Goodman Global, Inc. completed the initial public offering of its common stock. Goodman Global, Inc. offered 20.9 million shares and selling shareholders sold an additional 6.1 million shares, which included 3.5 million shares sold by selling shareholders pursuant to the exercise of the underwriters over-allotment option. Before expenses, Goodman Global, Inc. received proceeds of approximately $354.5 million. These proceeds were used to redeem all of Goodman Global, Inc. s outstanding Series A Preferred Stock including associated accrued dividends, to satisfy a $16.0 million fee resulting from the termination of Goodman Global, Inc. s management agreement with Apollo and to redeem $70.7 million of Goodman s subsidiary s floating rate notes. On February 13, 2008 in connection with the Transactions, Goodman Global, Inc. s common stock was deregistered and its senior subordinated 7-7/8% notes due 2012 and its senior floating rates notes due 2012 were repurchased and redeemed, and Goodman Global, Inc. issued $500.0 million aggregate principal amount of 13.5%/14.0% senior subordinated notes due 2016.

Markets and Sales Channels

We manufacture and market an extensive line of heating, ventilation and air conditioning products for the residential and light commercial markets primarily in the United States and Canada. These products include split-system air conditioners and heat pumps, gas furnaces, package units, air handlers, package terminal air conditioners, evaporator coils and accessories. Essentially all of our products are manufactured and assembled at facilities in Texas, Tennessee, Florida and Arizona, and are distributed through over 850 distribution points across North America.

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

Our customer relationships include independent distributors, installing 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

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residential and light commercial HVAC products. We believe that the dealer is the key participant in a homeowner s purchasing decision as the dealer is the primary contact for the end user. Given the strategic importance of the dealer, we remain committed to enhancing profitability for this segment of the supply chain while allowing our distributors to achieve their own profit goals. We believe the ongoing focus on the dealer creates loyalty and mutually beneficial relationships between distributors, dealers and us.

Weather, Seasonality and Business Mix

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

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

We believe approximately 20% to 25% of our sales is for residential new construction, with the balance attributable to repair, retrofitting and replacement units. With the current downturn in residential new construction activity, we are seeing a decline in the volume of products we sell into this market.

Costs

The principal elements of cost of goods sold in our manufacturing operations are component parts, raw materials, factory overhead, labor, transportation costs and warranty. The principal component parts, which, depending on the product, can approach up to 41% of our cost of goods sold, are compressors and motors. We believe that we have good relationships with quality component suppliers. The principal raw materials used in our processes are steel, copper and aluminum. In total, we spent over $302.7 million in 2007 on these raw materials and their cost variability can have a material impact on our results of operations. Shipping and handling costs associated with sales are recorded at the time of the sale. Warranty expense, which is also recorded at the time of sale, is estimated based on historical trends such as incident rates, replacement costs and other factors. We believe our warranty expense, which equaled 2.3% of our net sales in 2007, is less than or equal to the industry average.

In 2004 and 2005, our cost of goods sold reflects a short-term increase as a result of the purchase accounting treatment of the step-up in basis of inventory as a result of the 2004 Transactions. As a result of these adjustments to our asset basis, during the nine days following the Acquisition in 2004 and the year ended December 31, 2005, our cost of goods sold was increased by $4.4 million and $39.6 million in the fourth quarter of 2004 and the first quarter of 2005, respectively, as we recognized the non-cash increase in our inventory value. In 2008, our cost of goods sold reflects a short-term increase as a result of the purchase accounting treatment of the step-up in basis in inventory as a result of the Transactions. As a result of these adjustments, the cost of goods sold of our successor company was increased by $24.0 million in the first quarter of 2008.

Our selling, general and administrative expenses consist of costs incurred to support our marketing, distribution, engineering, information systems, human resources, finance, purchasing, risk management, legal and tax functions. We have historically operated at relatively low levels of selling, general and administrative expense as a percentage of sales compared to other large industry participants. Savings from this lean overhead structure allow us to offer an attractive value proposition to our distributors and support our low-priced philosophy throughout the distribution system. In 2004, our selling, general and administrative expenses were negatively affected by approximately $68.8 million of expenses related to the 2004 Transactions. In addition, in

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2006, our selling, general and administrative expenses were negatively impacted by $16.1 million of transaction costs related to our April 2006 initial public offering. In 2008, our predecessor company s selling, general and administrative expenses were negatively affected by approximately $42.9 million of expenses related to the Transactions.

Depreciation expense is primarily impacted by capital expenditure levels. Prior to the 2004 Transactions, we used the double declining depreciation method for equipment, which results in higher depreciation expense in the early years of an asset s life. Following the 2004 Transactions, equipment is depreciated on a straight line over the assets remaining useful lives. Under the rules of purchase accounting, in December 2004 and February 2008 we adjusted the value of our assets and liabilities to their respective estimated fair values, to the extent of the new investors ownership, with any excess of the purchase price over the fair market value of the net assets acquired allocated to goodwill. As a result of these adjustments to our asset basis, our depreciation and amortization expenses increased.

Interest expense, net consists of interest expense, interest income and gains or losses on the related interest rate derivative instruments. In 2008, our predecessor company s interest expense, net included a $49.8 million charge related to the Transactions and the related extinguishment of our predecessor company s outstanding debt. In addition, interest expense includes the amortization of the financing costs associated with the Transactions.

Other income, net consists of gains and losses on the disposals of assets and miscellaneous income or expenses.

Critical Accounting Policies and Estimates

Preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingent assets and liabilities. Many of the estimates require us to make significant judgments and assumptions. Actual results could differ from our estimates and could have a significant impact on our consolidated results of operations, financial position and cash flows. We consider the estimates used to account for warranty liabilities, self-insurance reserves and contingencies, rebates and the impairment of long-lived assets and goodwill as our most significant judgments.

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.

Warranties

We offer a variety of parts warranties on our products. Provisions for warranties are made at the time revenues are recognized. These reserves are based on estimations derived from historical failure rates, estimated service costs and historical trends. In addition, when new products are introduced, we consult with engineering, manufacturing and quality control personnel to determine the initial warranty expense. On a quarterly basis, we reevaluate the estimated liability related to the installed units still under warranty based on updated failure rates and will, at times, adjust our warranty reserve. We do not discount this liability when making this calculation.

We also sell extended service contracts for certain of our products with terms of up to 10 years. Revenues from extended warranty contracts are deferred and amortized on a straight-line basis over the terms of the contracts. Expenses relating to obtaining and servicing these contracts are expensed as incurred.

Income taxes

The owner prior to the 2004 Transactions, and most of its subsidiaries, historically elected S corporation or partnership status for income tax purposes. Accordingly, most income prior to December 2004 was taxed directly

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to the previous owner s shareholders. The previous owner typically made cash distributions to its shareholders to pay those taxes. Following the 2004 Transactions, we became taxable at the corporate level and we began recording an income tax obligation at a rate comparable to the federal and state statutory rates, which was approximately 38.5%. As a result of the 2004 Transactions, there was a significant step-up in the book basis of our assets. We believe that for a majority of the step-up in basis, we will receive tax deductions, significantly reducing our cash tax payments from what they would have been without such deductions. It is also expected that a substantial portion of the goodwill recorded in the 2004 acquisition will be deductible for income tax purposes.

At March 31, 2008, we had a valuation allowance of $3.4 million against certain net operating loss carryforwards. We believe that the remaining deferred tax assets at March 31, 2008, amounting to $49.2 million, are realizable through carrybacks, future reversals of existing taxable temporary differences, and future taxable income. Uncertainties that affect the ultimate realization of deferred tax assets include the risk of not having future taxable income. These factors have been considered in determining the valuation allowances. As of March 31, 2008, we had deferred tax liabilities of $182.9 primarily related to the non-deductibility of the step-up in basis of the assets to fair value in accordance with purchase accounting related to the Transactions.

As noted below under the heading Recent Accounting Pronouncements, we adopted FIN 48 effective January 1, 2007. FIN 48 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect our operating results. The accounting treatment for recorded tax assets associated with our tax positions reflect our judgment that it is more likely than not that our positions will be respected and the recorded assets will be realized. However, if such positions are challenged, then, to the extent they are not sustained, the expected benefits of the recorded assets and tax positions will not be fully realized.

Self Insurance Reserves and Contingencies

We self-insure worker s compensation, product liability, general liability, vehicle liability, group health and physical damage up to certain stop-loss amounts. We work with our claims administrator to estimate our self-insurance expenses and liabilities. The expense and liabilities are determined based on historical company claims information, as well as industry factors and trends in the level of such claims and payments. Our self-insurance reserves, calculated on an undiscounted basis, as of December 31, 2006 and December 31, 2007, represent the best estimate of the future payments to be made on incurred claims reported and unreported for 2007 and prior years. We maintain safety and injury prevention programs that are designed to improve the work environment, and as a result, reduce the incident rate and severity of our various self-insured risks. Actual payments for claims reserved may vary depending on various factors including the development and ultimate settlement of reported and unreported claims. Non-routine litigation and other uninsured contingencies require significant judgment and not all risks are insured.

Rebates and Advertising Co-op Expenditures

We offer multiple rebate programs to our national accounts, dealers and builders as inducement to encourage utilization of Goodman® and Amana® branded equipment across replacement and new construction markets. These rebates are part of our volume and new construction incentive programs. In addition, we offer a variety of rebate programs to our independent distributors to encourage distributors to pass on lower equipment costs to dealers in order to drive market share expansion.

Rebates are accrued based on sales. For certain rebates, the accrual rate is impacted by estimates of the customer s ability to reach targeted purchase levels. Rebates paid or credited to independent distributors, dealers and homebuilders are netted against revenues in accordance with the provisions of EITF Number 01-9, Accounting for Consideration Given to a Customer (Including a Reseller of the Vendor s Products).

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Co-op marketing expenditures are funds reserved for cooperative marketing programs between us and our distributors. These expenditures are reflected in selling costs because they are based on an annual marketing plan whereby the distributor commits to spending the funds on marketing and advertising our products.

Impairment of Long-lived Assets other than Intangibles

We conduct periodic reviews for idle and under-utilized equipment and facilities and review business plans for possible impairment implications. If an impairment were detected, these costs would be expensed in the same period. Historically, no significant impairment charges have been recorded.

Impairment of Goodwill

Goodwill is the excess cost of an acquired company over the amounts assigned to assets acquired and liabilities assumed. Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is not amortized, but is 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 is one level below the business segment level. Under the criteria set forth by SFAS No. 142, we have two reporting units based on the structure in place as of December 23, 2004. Goodwill was allocated to these reporting units based on the net assets acquired. An impairment charge generally would be recognized when the carrying amount of the reporting unit exceeds the estimated fair market value of the reporting unit. We performed our annual test as of October 1, 2007 and determined that no impairment exists.

Identifiable Intangible Assets

The values assigned to amortizable intangible assets are amortized to expense over their estimated useful lives and are reviewed for potential impairment. The estimated useful lives are based on an evaluation of the circumstances surrounding each asset, including an evaluation of events that may have occurred that would cause the useful life to be decreased. In the event the useful life would be considered to be shortened, or if the asset s future value were deemed to be impaired, an appropriate amount would be charged to amortization expense. Future operating results and residual values could therefore reasonably differ from our current estimates and could require a provision for impairment in a future period. Indefinite lived intangible assets are reviewed in accordance with SFAS No. 142, Goodwill and other Intangibles by comparison of the fair market value with its carrying amount.

The values assigned to our 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 income. The key assumption in using this approach is the identification of the revenue streams attributable to these assets based on budgeted future revenues.

At the time of the 2004 Transactions, we assigned a value of approximately $11.0 million to a particular renewable sales contract. During the fourth quarter of 2005, a decision was made not to renew this agreement before its expiration. As a result, the net balance of this intangible, approximately $10.3 million, was taken as a charge to the income statement in December 2005. We do not believe the expiration of the agreement had a material effect on us.

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Results of Operations

The following table sets forth, as a percentage of net sales, our statement of operations data for the years ended December 31, 2005, 2006 and 2007 and the three months ended March 31, 2007 and 2008:

	Year Ended December 31,			Three Months Ended March 31,	
	2005	2006	2007	2007	2008(1)
Consolidated statement of operations data:					
Sales, net	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	79.4	76.6	75.6	79.7	83.7
Selling, general and administrative expenses	10.9	11.5	10.9	12.1	25.5
Depreciation and amortization expense	2.4	1.8	1.8	2.2	2.9
Operating profit	7.3	10.1	11.7	6.0	(12.1)
Interest expense, net	4.7	4.3	3.5	4.4	21.0
Other (income) expense, net		0.3	(0.1)	(0.3)	(0.1)
Earnings before taxes	2.6	5.5	8.3	1.8	(33.0)
Provision for income taxes	1.0	1.9	3.1	0.6	(10.2)
Net income	1.6	3.6	5.2	1.2	(22.8)

(1) The financial information for these periods reflects the combined presentation of the successor and predecessor company financial statements and are therefore unaudited non-GAAP financial measures.

Three Months Ended March 31, 2008 Compared to March 31, 2007

Sales, net. Net sales for the three months ended March 31, 2008 were $364.9 million, a $15.4 million, or 4.1%, decrease from $380.3 million for the three months ended March 31, 2007. Sales volume for the three months ended March 31, 2008 was 7.4% lower than the same period in the previous year, primarily as a result of the continuing decline in the residential new construction market and the mild weather conditions throughout much of the United States. The decline in sales volume was partially offset by pricing-related gains, due to the shift to a higher proportion of higher priced, higher SEER cooling products. Our sales volume decline was partially offset by the contribution from two new company-operated distribution centers that were opened during the first three months of 2008 and the continuing benefit from the 59 (net) company-operated distribution centers that were opened from January 1, 2004 through December 31, 2007.

Cost of goods sold. Cost of goods sold for the three months ended March 31, 2008, was $305.4 million, a $2.1 million, or 0.7% increase from $303.3 million for the three months ended March 31, 2007. Cost of goods sold increased as a result of the purchase accounting treatment of the step-up in basis of inventory related to the Transactions. During the period following the Transactions, our cost of goods sold increased by $24.0 million as we recognized the non-cash increase in our inventory value. Excluding the effect of the amortization of the inventory step up, cost of goods sold as a percentage of net sales decreased from 79.7% for the three months ended March 31, 2007 to 77.1% for the three months ended March 31, 2008. This decrease in cost of goods sold as a percentage of net sales was due to cost-reducing product design modifications and increased productivity and efficiencies in our factories.

Selling, general and administrative expense. Selling, general and administrative expense for the three months ended March 31, 2008, was $92.9 million, a $47.0 million increase from $45.9 million for the three months ended March 31, 2007. Selling general and administrative expense for the three months ended March 31, 2008 was negatively affected by $42.9 million of expenses related to the Transactions. The increase in selling, general and administrative was also driven by the net addition of 13 new company-operated distribution centers opened since March 31, 2007 and additional company-operated sales personnel.

Depreciation and amortization expense. Depreciation and amortization expense for the three months ended March 31, 2008, was $10.7 million, a $2.4 million or 29.1% increase from $8.3 million for the three months ended March 31, 2007. The increase was primarily due to $2.7 million in amortization of identifiable intangible assets recorded as part of the Transactions.

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Operating (loss) profit. Operating loss for the three months ended March 31, 2008, was $44.2 million, a $67.0 million decrease from $22.8 million operating profit reported for the three months ended March 31, 2007. Operating profit for the three months ended March 31, 2008 was negatively impacted by the $24.0 million amortization of the inventory step up and the $42.9 million transaction-related expenses discussed above. In addition, operating loss increased due to the 7.4% decline in sales volume, offset by pricing-related gains, due to the shift to a higher proportion of higher priced, higher SEER cooling products and cost-reducing product design modifications, increased productivity and efficiencies in our factories and lower commodity costs.

Interest expense, net. Interest expense, net for the three months ended March 31, 2008, was $76.7 million, an increase of $59.8 million from $16.9 million reported for the three months ended March 31, 2007. Interest expense, net for the three months ended March 31, 2008 included a charge of $49.8 million related to the Transactions and the related extinguishment of our predecessor company s outstanding debt. Additionally, interest expense, net increased due to increases in the amount of debt outstanding and higher interest rates. The outstanding debt balance as of March 31, 2008 was $1,377.6 million compared to $837.2 million as of March 31, 2007.

Other (income) expense, net. Other income for the three months ended March 31, 2008, was $0.5 million, a net change of $0.6 million from $1.1 million reported for the three months ended March 31, 2007. The change in other (income) expense, net is primarily due to $0.1 million and $0.7 million net gains from asset dispositions during the three months ended March 31, 2008 and March 31, 2007, respectively.

Provision for income taxes. The income tax benefit for the three months ended March 31, 2008, was $37.1 million, an increase of $39.5 million compared to the tax provision of $2.4 million for the same period in 2007. The net tax benefit was due to the pre-tax loss during the three months ended March 31, 2008 resulting from expenses related to the Transactions and higher interest expense. The effective tax rate for the three months ended March 31, 2008 and March 31, 2007 was 30.9% and 33.8%, respectively.

Year Ended December 31, 2007 compared to Year Ended December 31, 2006

Sales, net. Net sales for the year ended December 31, 2007 were $1,935.7 million, a $140.9 million, or 7.9%, increase from $1,794.8 million for the year ended December 31, 2006. This increase was primarily due to approximately 6% growth in sales volume and favorable product mix including the continued shift to higher priced, higher SEER cooling products. In addition, we benefited from our April 1 and October 1, 2006 price increases, which added approximately 2% to 2007 sales dollars as compared to the prior year. Our sales volume benefited from seven new company-operated distribution centers that were opened in 2006 and 13 in 2007 on a net basis, and the maturing of the 39 company-operated distribution centers opened in 2004 and 2005.

Cost of goods sold. Cost of goods sold for the year ended December 31, 2007, was $1,462.8 million, an $88.0 million, or 6.4%, increase from $1,374.8 million for the year ended December 31, 2006. This increase primarily relates to higher sales volume and higher commodity costs associated with copper and aluminum. Cost of goods sold as a percentage of net sales decreased from 76.6% for the year ended December 31, 2006 to 75.6% for the year ended December 31, 2007. This decrease in cost of goods sold as a percentage of net sales was due to cost-reducing product design modifications, increased productivity and efficiencies in our factories and the two price increases implemented in 2006, partially offset by higher commodity costs.

Selling, general and administrative expense. Selling, general and administrative expense for the year ended December 31, 2007, were $210.6 million, a $4.7 million, or 2.3%, increase from $205.9 million for the year ended December 31, 2006. As a percentage of net sales, selling, general and administrative expense were 10.9% and 11.5% for the years ended December 31, 2007 and December 31, 2006, respectively. Selling, general and administrative expense for the year ended December 31, 2006 included IPO-related expenses associated with the termination of the management agreement with Apollo and the acceleration of stock options totaling $16.1 million. Excluding these non-recurring IPO-related expenses, selling, general and administrative expense for the year ended December 31, 2007 increased in dollars and as a percentage of net sales from the year ended December 31, 2006. This increase was primarily due to our continued investment in several of our key growth initiatives, increased incentive compensation expenses, and the additional costs of operating as a public company. These key growth initiatives included costs for expansion of our company-operated distribution network, including our sales manager training program and an increase in our dealer recruitment activities.

Depreciation and amortization expense. Depreciation and amortization expense for the year ended December 31, 2007, were $35.1 million, a $2.5 million or 7.6% increase from $32.6 million for the year ended December 31, 2006. The increase was primarily due to higher depreciation expense related to capital expenditures associated with the transition to the federally mandated 13 SEER minimum efficiency requirements and capacity expansion at our production facilities.

Operating profit. Operating profit for the year ended December 31, 2007, was $227.2 million, a $45.8 million, or 25.2%, increase from $181.4 million reported for the year ended December 31, 2006. Operating profit for the year ended December 31, 2006 was negatively impacted by the $16.1 million IPO-related expenses discussed above. In addition, operating profit increased during the year ended December 31, 2007, as compared to the prior year, due to higher gross profit as a result of the growth in sales volume with an increased proportion of sales from higher SEER products, the 2006 price increases, cost-reducing product design modifications and increased productivity and efficiencies in our factories, partially offset by higher selling, general and administrative expenses, higher commodity costs and depreciation.

Interest expense, net. Interest expense, net for the year ended December 31, 2007, was $68.4 million, a decrease of $9.4 million or 12.1% from $77.8 million reported for the year ended December 31, 2006. Interest expense, net for 2006 included a $1.4 million premium paid for the early pay-down of debt and the acceleration of $2.3 million of deferred financing costs as the result of the early debt pay-down using a portion of the proceeds from our initial public offering. In addition, interest expense, net decreased due to the lower amount of debt outstanding and more interest income. The outstanding long-term debt balance as of December 31, 2007 was $655.4 million compared to $838.1 million as of December 31, 2006.

Other (income) expense, net. Other (income) expense for the year ended December 31, 2007, was $2.7 million of income, a net change of $8.0 million from $5.3 million of expense reported for the year ended December 31, 2006. The change in other (income) expense, net is primarily due to a $6.0 million charge taken in 2006 for unrealized losses resulting from the change in fair market value of some of our commodity derivatives that did not qualify for hedge accounting treatment and $2.0 million net gain from asset dispositions recognized in 2007.

Provision for income taxes. The income tax provision for the year ended December 31, 2007, was $60.2 million, an increase of $26.0 million compared to the tax provision of $34.2 million for the same period in 2006. The effective tax rate for the year ended December 31, 2007 and December 31, 2006 was 37.3% and 34.8%, respectively. The increase in the effective tax rate is due to the impact of recently enacted higher Texas state taxes, the effect of FIN 48, and the expiration of the 2006 benefits from the Extraterritorial Income Exclusion (the amount of extraterritorial income, gross income of the taxpayer attributable to foreign trading gross receipts, that is excluded from gross income for the tax year), net of the benefit of the increased Domestic Production Activities Deduction (the deduction from taxable income attributable to domestic production activities) for 2007.

Year Ended December 31, 2006 compared to Year Ended December 31, 2005

Sales, net. Net sales for the year ended December 31, 2006 were $1,794.8 million, a $229.4 million, or 14.7%, increase from $1,565.4 million for the year ended December 31, 2005. Approximately 85% of the sales increase was driven by the shift to a higher proportion of higher priced 13-and-higher SEER products. As a result of the federal mandated 13 SEER efficiency that went into effect January 23, 2006, we experienced a shift to higher efficiency products beginning in the first quarter of 2006. The remainder of the sales increase was

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attributable to our April 1 and October 1, 2006 price increases. Our equipment volume was consistent with the prior year as the mild seasonal weather in the late summer and early winter and a second half slow down in residential new construction was offset by the contribution from new company-operated distribution centers that were opened in 2006 and 2005, seven and 17 respectively, and the maturing of the 22 company-operated distribution centers opened in 2004. Finally, the increase in the sales of our other non-equipment products was offset by the impact of unfavorable product line mix.

Cost of goods sold. Cost of goods sold for the year ended December 31, 2006, was $1,374.8 million, a $131.4 million, or 10.6%, increase from $1,243.4 million for the year ended December 31, 2005. Cost of goods sold increased primarily due to a high sales mix of 13-and-higher SEER products, which have higher unit costs than lower SEER products, and an escalation in new material costs. In addition, 2005 was affected by the non-recurring, non-cash expense of $39.6 million as a result of the purchase accounting treatment of the step-up in basis of inventory. Cost of goods sold as a percentage of net sales decreased from 79.4% for the year ended December 31, 2005 to 76.6% for the year ended December 31, 2006. Excluding the impact of the inventory valuation step-up, costs of goods sold as a percentage of net sales for the year ended December 31, 2005 was 76.9%, relatively consistent with the ratio for the year ended December 31, 2006.

Selling, general and administrative expense. Selling, general and administrative expense for the year ended December 31, 2006, were $205.9 million, a $35.8 million, or 21.1%, increase from $170.1 million for the year ended December 31, 2005. Selling, general and administrative expense for the year ended December 31, 2006 were negatively affected by $16.1 million of expenses related to our April 1, 2006 initial public offering. These expenses consisted of costs associated with the termination of the management agreement with Apollo and the acceleration of stock options. Excluding the IPO related expenses, selling, general and administrative expense for the year ended December 31, 2006 increased $19.7 million, or 11.6%. Selling, general and administrative expense for 2006 increased as a result of opening and operating new company-operated distribution centers and higher sales volumes. As a percentage of sales, excluding the IPO related expenses, selling, general and administrative expense in 2006 were 10.5% of net sales compared to 10.9% of net sales for 2005.

Depreciation and amortization expense. Depreciation and amortization expense for the year ended December 31, 2006, were $32.6 million, a $5.1 million decrease from $37.7 million for the year ended December 30, 2005. Impacting 2005 was a $10.3 million impairment charge in the fourth quarter for the remaining value of a non-renewed sales contract. Excluding this charge, depreciation and amortization increased $5.2 million over the year ended December 31, 2005. The increase was primarily due to higher depreciation expense related to recent capital expenditures associated with the transition to the federal mandated 13 SEER minimum efficiency requirements and capacity expansion at our production facilities. Additionally, depreciation expense for the period increased as a result of the step-up in cost basis of the assets and resetting of asset lives in conjunction with the 2004 Transactions.

Operating profit. Operating profit for the year ended December 31, 2006, was $181.4 million, a $67.2 million, or 58.8%, increase from $114.2 million reported for the year ended December 31, 2005. Operating profit for the year ended December 31, 2005 was negatively impacted by the $39.6 million non-recurring, non-cash charge incurred in connection with the step-up in inventory basis, as described above. The remaining increase in operating profit was due primarily to higher revenues from the increased proportion of 13-and-higher SEER products sold and the price increases mentioned above, partially offset by higher selling, general, and administrative expenses, including $16.1 million of costs associated with our IPO, and higher cost of goods sold.

Interest expense, net. Interest expense, net for the year ended December 31, 2006, was $77.8 million, an increase of $3.6 million from $74.2 million reported for the year ended December 31, 2005. Interest expense, net was higher in 2006 due to the $1.4 million premium paid for the early pay-down of debt using a portion of the proceeds from our initial public offering. In addition, as a result of our debt pay-down, we accelerated the amortization of $3.9 million of deferred financing costs. Adding to the increase were higher interest rates on our floating rate debt outstanding. These increases were partially offset by lower outstanding revolving credit facility balances and interest earned on cash balances.

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Other (income) expense, net. Other (income) expense for the year ended December 31, 2006 was expense of $5.3 million, a net change of $6.0 million from income of $0.7 million reported for the year ended December 31, 2005. This increase in other expense primarily represents the change in fair value of certain of our commodity derivatives that did not qualify for hedge accounting treatment.

Provision for income taxes. The income tax provision for the year ended December 31, 2006 was $34.2 million, an increase of $18.4 million compared to the tax provision of $15.8 million for the same period in 2005. The effective tax rate for the year ended December 31, 2006 and December 31, 2005 was 34.8% and 38.9%, respectively. The effective tax rate was lower primarily as a result of three items. First, recent federal legislative changes permitted us to take a deduction for qualified domestic production activity income. Second, we qualified and computed the exclusion of foreign sales income. Finally, the mix of sales, payroll, and property in the various jurisdictions favorably impacted our state tax rate.

Liquidity and Capital Resources

As of March 31, 2008, we had cash and cash equivalents of $15.9 million and working capital of $419.2 million, excluding current maturities of long-term debt of $11.6 million and $156.4 million of undrawn commitments for revolving credit loans under our asset-based revolving credit agreement. We have funded, and expect to continue to fund, operations through cash flows generated by operating activities and borrowings under our asset-based revolving credit agreement. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our asset-based 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.

Operating activities

For the three months ended March 31, 2008, we used $41.3 million of cash from operations compared to $2.4 million provided from operations for the three months ended March 31, 2007. Cash from operations for the three months ended March 31, 2008 was impacted by approximately $78.6 million of expenses related to the Transactions. Additionally, cash from operations decreased due to higher interest expense associated with debt incurred in connection with the Transactions and increased inventory levels as a result of preparation for the upcoming cooling season. Cash from operations for the three months ended March 31, 2007 was impacted by lower net income and higher accounts receivable as a result of the timing of our sales in the quarter.

For the year ended December 31, 2007 we generated $204.2 million of cash from operations compared to $53.7 million and $105.5 million of cash generated from operations in 2006 and 2005, respectively. Cash flow from operations in 2007 increased due to higher net income as well as lower inventory levels resulting from improved production attainment, reduction in cooling SKU s, improved order cycle times and higher sales, offset by an increase in accounts receivable. Cash flow from operations in 2006 was negatively impacted by higher inventory as a result of the industry shift to more costly 13-and-higher SEER products and increased commodity costs. Also affecting 2006 cash flow from operations were decreases in accounts payable offset by an increase in accounts receivable. Cash flow from operations in 2005 increased from 2004 primarily due to higher net income generated from our higher sales volume, partially offset by higher interest expense associated with the debt incurred in connection with our 2004 Transactions.

Investing activities

For the three months ended March 31, 2008, cash used in investing activities was $1,945.6 million compared to $5.0 million for the three months ended March 31, 2007. This usage was primarily due to $1,940.6 million of cash relating to the Transactions. Capital expenditures were $5.0 million and $10.3 million for the three months ended March 31, 2008 and 2007, respectively. For the three months ended March 31, 2007, these capital expenditures were offset by proceeds of $5.3 million from the sale of a building and associated land used in our company-operated distribution network.

For the year ended December 31, 2007 cash used in investing activities was $14.2 million compared to $39.3 million and $25.0 million in 2006 and 2005, respectively. Capital expenditures totaled $26.4 million, $39.4 million and $28.8 million in 2007, 2006 and 2005, respectively. The capital expenditures for the year ended December 31, 2007 were offset by $12.2 million of proceeds from the sale of three buildings and associated land used in our company operated distribution network.

Financing activities

For the three months ended March 31, 2008, cash provided by financing activities was $1,983.9 million compared to $0.9 million in cash used from financing activities for the three months ended March 31, 2007. For the three months ended March 31, 2008, we extinguished our predecessor company debt and received proceeds of $1,373.0 million from long-term debt, net of original issue discount and $1,278.2 million in equity contributions in connection with the Transactions. In addition, for the three months ended March 31, 2008, we borrowed $15.1 million under our revolving credit facility, of which $11.5 million was repaid as a result of the 2008 Transaction. These increases were partially offset by deferred financing costs of $44.5 million and equity issuance costs of $7.7 million associated with the Transactions. Financing activities for the three months ended March 31, 2007 included the payment of long-term debt of $0.9 million.

In 2007, we used $182.7 million in cash from financing activities, compared to $26.6 million and $60.6 million in cash used in financing activities in 2006 and 2005, respectively. During 2007, we repaid $182.6 million of our long-term debt. In April 2006 as a result of our initial public offering, we received proceeds of $354.5 million, redeemed $255.2 million of preferred stock and accrued dividends, and paid $2.5 million in transaction costs. Also during 2006, we repaid $123.3 million of our long-term debt. During 2005, we repaid $24.1 million of indebtedness under our revolving credit facility and repaid $38.6 million of indebtedness under our long-term debt facility.

Post-2008 Transactions

Our primary sources of liquidity are expected to continue to be cash flow from operations and borrowings under our asset-based revolving credit agreement. We also expect that ongoing requirements for debt service and capital expenditures will be funded from these sources.

We incurred substantial indebtedness in connection with the Transactions. On March 31, 2008, we had $1,377.6 million of indebtedness outstanding (excluding approximately $35.0 million of issued and outstanding letters of credit) and $156.4 million of undrawn commitments for revolving credit loans under our asset-based revolving credit agreement.

In connection with the 2004 Transactions, we issued $250.0 million in aggregate principal amount of our floating rate notes and $400.0 million in aggregate principal amount of our fixed rate notes and entered into the senior secured credit facilities consisting of a term loan in the principal amount of $350.0 million and a revolving credit facility in an aggregate amount of up to $175.0 million. As of December 31, 2007, we had no revolver borrowings outstanding and the ability to borrow up to $141.7 million of additional indebtedness under our revolving credit facility. The borrowings under the revolving credit facility were available to fund our working capital requirements, capital expenditures and for other general corporate purposes. Borrowings under the term loan were due and payable in quarterly installments. The term loan amortization payments due before the stated maturity date were nominal.

On January 10, 2008, we commenced cash tender offers to purchase our outstanding $400.0 million aggregate principal amount of fixed rate notes outstanding and our $179.3 million aggregate principal amount of floating rate note outstanding (together, the Existing Notes) and solicitations of consents from the holders of the Existing Notes with respect to amendments to the indentures governing the Existing Notes that would eliminate substantially all of the restrictive covenants contained in the indentures and in the Existing Notes and also eliminate certain events of default, certain covenants relating to mergers and certain conditions to legal defeasance and covenant defeasance, but would not eliminate, among other things, certain repurchase obligations in respect of the Existing Notes. On February 13, 2008, we accepted the tenders and made payment to holders of the Existing Notes the tender offer consideration and consent payment, and called for redemption and deposited the redemption payment with the trustee in respect of untendered Existing Notes, and discharged the indentures governing the Existing Notes. In addition, on February 13, 2008, we repaid the $76.1 million outstanding under our then-existing credit facility and $11.5 million outstanding under our then-existing revolving loan and swing note.

On February 13, 2008, Merger Sub issued and sold $500.0 million of notes, which are the subject of the exchange offer for exchange notes described in this prospectus, and borrowed (1) $800.0 million under a new senior secured term credit agreement with Barclays Capital and Calyon New York Branch, as joint lead arrangers, Barclays Capital, Calyon New York Branch and General Electric Capital Corporation, as joint bookrunners, General Electric Capital Corporation, as administrative agent and collateral agent, and the lenders from time to time party thereto, and (2) $105.0 million under a new asset-based revolving credit agreement with Barclays Capital and General Electric Capital Corporation, as joint lead arrangers, Barclays Capital, Calyon New York Branch and General Electric Capital Corporation, as joint bookrunners, General Electric Capital Corporation, as administrative agent and collateral agent, General Electric Capital Corporation, as letter of credit issuer, and the lenders from time to time party thereto. See Description of Other Indebtedness and Description of the Notes for a description of the terms of such financings.

The Merger, the repurchase of the Existing Notes, the repayment of the existing credit facility, revolver and swing note and the fees and expenses relating to the Transactions, were financed by borrowings under our new senior secured term credit agreement, our new asset-based revolving credit agreement, the issuance of the notes, as well as the equity investments described under The Transactions and Goodman s cash on hand at the closing of the Merger.

For the years ended December 31, 2005, 2006 and 2007, we spent $28.8 million, $39.4 million and $26.4 million, respectively, on capital expenditures primarily to enhance our products and information technology systems. In 2006, our existing production capacity was increased in certain areas to meet our current growth expectations, and tooling and modifications were required to prepare for the growth expected to result from the change in minimum SEER standards.

Our ability to make scheduled payments of principal of, to pay the interest on, or to refinance our indebtedness or to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our asset-based 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 and general corporate purposes.

As a holding company, our investments in our operating subsidiaries constitute substantially all of our operating assets. Consequently, our subsidiaries will conduct all of our consolidated operations and own substantially all of our operating assets. Our principal source of the cash we need to pay our obligations and to repay the principal amount of our obligations is the cash that our subsidiaries generate from their operations and their borrowings. Our subsidiaries are not obligated to make funds available to us. The terms of our senior secured credit facilities and our indentures governing the fixed rate notes and floating rate notes significantly

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restrict our subsidiaries from paying dividends and otherwise transferring assets to us. Our subsidiaries will be permitted under the terms of the senior credit facilities and our indentures governing the fixed rate notes and floating rate notes to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us. If we consummate an acquisition, our debt service requirements could increase. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Financial Covenant Compliance

Under our new senior secured term credit agreement, we are 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 our new asset-based revolving credit agreement, we are required to satisfy and maintain, in certain circumstances, a minimum fixed charge coverage ratio. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will be able to meet those ratios and tests as required. A breach of any of these covenants would result in a default (which, if not cured, could mature into an event of default) and in certain cases an immediate event of default under our senior secured term credit agreement and our senior secured asset-based revolving credit agreement. Upon the occurrence of an event of default under such agreements, all amounts outstanding under such agreements could be declared to be (or could automatically become) immediately due and payable and all commitments to extend further credit could be terminated.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, is a non-GAAP financial measure used to determine our compliance with certain covenants contained in our senior secured term credit agreement and our asset-based revolving credit agreement. Covenant EBITDA represents EBITDA further adjusted to exclude unusual items and other adjustments permitted in calculating covenant compliance under our senior secured credit agreements. We believe that the presentation of Covenant EBITDA is appropriate to provide additional information to investors regarding our compliance with the financial covenants under such agreements. The breach of financial covenants in such agreements (i.e., those that require the maintenance of ratios based on Covenant EBITDA) would result in an event of default under such agreements, in which case the lenders could elect to declare all amounts borrowed thereunder due and payable. Any such acceleration would also result in a default under the indenture governing the notes. Additionally, under our debt agreements and instruments, our ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is also tied to ratios based on Covenant EBITDA.

Covenant EBITDA does not represent net income or cash flow from operations as those terms are defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. While Covenant EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation. Covenant EBITDA does not reflect the impact of earnings or charges resulting from matters that we may consider not to be indicative of our ongoing operations. In particular, the definition of Covenant EBITDA in our senior secured term credit agreement and our asset-based revolving credit agreement allows us to add back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating GAAP net income. Our senior secured term credit agreement requires that Covenant EBITDA be calculated for the most recent four fiscal quarters. As a result, Covenant EBITDA can be disproportionately affected by a particularly strong or weak quarter and may not be comparable to Covenant EBITDA for any subsequent four-quarter period or any complete fiscal year.

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The following is a reconciliation of net income, which is a GAAP measure of our operating results, to Covenant EBITDA as defined in our debt agreements and instruments.

	Year Ended December 31,			Twelve Months Ended March 31,
	2005	2006	2007	2008
			(in millions)	
Net income	$ 24.9	$ 64.2	$ 101.4	$ 13.5
Add:				
Provision for income taxes	15.8	34.2	60.2	20.7
Interest expense, net	74.2	77.8	68.8	128.2
Depreciation and amortization expense	37.7	32.6	35.1	37.5
EBITDA	152.6	208.8	265.5	199.9
Add:				
Inventory valuation step-up	39.6			24.0
Transaction-related charges and expenses		16.1		42.9
Monitoring fees	2.0	0.6		
Non-cash impairment charges			1.6	1.6
Non-cash stock option expense			2.1	3.8
Other non-cash expenses			0.8	1.7
Covenant EBITDA	$ 194.2	$ 225.5	$ 270.0	$ 273.9

Our required covenant ratios as of March 31, 2008, were as follows:

	Ratio
Senior secured credit facilities (1)	
Minimum Covenant EBITDA to consolidated interest expense ratio	1.55x
Maximum consolidated total debt to Adjusted EBITDA ratio	6.80x
Minimum Covenant EBITDA to fixed charges ratio	1.0x
Senior subordinated notes (2)	
Minimum Covenant EBITDA to fixed charges ratio required to incur additional indebtedness pursuant to ratio provision	2.00x

(1) Our senior secured term credit agreement requires us to maintain a Covenant EBITDA to interest expense ratio starting at a minimum of 1.55 to 1.00 for the periods ending March 31, 2008 and June 30, 2008 and stepping up over time to 1.60 to 1.00 for each subsequent period through December 31, 2008, further increasing to 1.65 to 1.00 for each period through June 30, 2009, 1.80 to 1.00 by the end of the fiscal year ending December 31, 2009, 2.10 to 1.00 by the end of the fiscal year ending December 31, 2010, 2.50 to 1.00 by the end of the fiscal year ending December 31, 2011, 3.20 to 1.00 by the end of the fiscal year ending December 31, 2012, until it reaches 4.15 to 1.00 by the end of the fiscal year ending December 31, 2013. Interest expense is defined in the senior secured term credit agreement as consolidated cash interest expense less cash interest income and is further adjusted for certain non-cash interest expenses and other items. Again beginning with the one-quarter period ending March 31, 2008, we are also required to maintain a total debt to Covenant EBITDA ratio starting at a maximum of 6.80 to 1.00 for the period ending March 31, 2008 and June 30, 2008 and stepping down over time to 6.25 to 1.00 for each subsequent period through December 31, 2008, decreasing to 5.75 to 1.00 by the end of the fiscal year ending December 31, 2009, 4.75 to 1.00 by the end of the fiscal year ending December 31, 2010, 4.00 to 1.00 by the end of the fiscal year ending December 31, 2011, 3.10 to 1.00 by the end of the fiscal year ending December 31, 2012 until it reaches 2.40 to 1.00 by the end of the fiscal year ending December 31, 2013. Total debt is defined in the senior secured term credit agreement as consolidated total debt other than certain indebtedness and is reduced by the amount of cash and cash equivalents on our balance sheet. In addition, our asset-based revolving credit agreement requires us to maintain a Covenant EBITDA to fixed charges ratio at a minimum

of 1.00 to 1.00 when excess availability under the asset-based revolving credit agreement is less than $30.0 million. Fixed charges is defined in the asset-based revolving credit agreement as the sum of consolidated cash interest expense, scheduled payments of principal of indebtedness and cash dividends paid on any preferred or disqualified capital stock. Failure to satisfy these ratio requirements would constitute a default under the senior secured credit facilities. If our lenders failed to waive any such default, our repayment obligations under the senior secured credit facilities could be accelerated, which would also constitute a default under the indenture governing the notes.

(2) Our ability to incur additional indebtedness and make certain restricted payments under the indenture governing the notes, subject to specified exceptions, is tied to a Covenant EBITDA to fixed charges ratio of at least 2.0x, except that we may incur certain indebtedness and make certain restricted payments and certain permitted investments without regard to the ratio. Covenant EBITDA, as defined in the indenture governing the notes, is substantially similar to the definition of such term in the senior secured credit agreements. Fixed charges is defined in the indenture governing the notes as consolidated interest expense and tax-effected dividends payable on any preferred or disqualified capital stock, as adjusted for acquisitions.

Recent Accounting Pronouncements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157), which establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. However, in February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP No. 157-2), which deferred the effective date of SFAS No. 157 for one year for non-financial assets and liabilities, except for certain items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We are currently evaluating the impact of SFAS No. 157 on our Consolidated Financial Statements for items within the scope of FSP No. 157-2, which will become effective on January 1, 2009.

Effective January 1, 2008, we also adopted Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. As we have not elected the fair value option for any of our assets and liabilities, the adoption of SFAS No. 159 had no impact on our consolidated financial statements.

Contractual Obligations and Commitments

The following table reflects our contractual obligations and commercial commitments as of March 31, 2008. Commercial commitments include lines of credit, guarantees and other potential cash outflows resulting from a contingent event that requires our performance pursuant to a funding commitment.

	Payments due by period				
	Total	Less than 1	2 to 3	4 to 5	More than 5
			(in millions)		
Term loans	$ 800.0	$ 8.0	$ 16.0	$ 16.0	$ 760.0
Revolving credit loans	105.0				105.0
13.50%/14.00% notes	500.0				500.0
Operating leases	101.0	25.0	39.4	21.1	15.5
Related party payments	1.4	0.2	0.4	0.4	0.4
Interest payments	932.3	107.4	263.6	261.2	300.1
Self insurance	8.4	4.4	2.6	1.2	0.2
Pension payments	16.0	1.2	2.6	2.9	9.3
Total contractual obligations	$ 2,464.1	$ 146.2	$ 324.6	$ 302.8	$ 1,690.5

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Excluded from the foregoing contractual obligations table are open purchase orders at March 31, 2008 for raw materials and supplies used in the normal course of business, supply contracts with customers, distribution agreements and other contracts without express funding requirements.

Contingencies

Various claims, lawsuits and administrative proceedings with respect to commercial, product liability and environmental matters are pending or threatened against us and our subsidiaries arising from the ordinary course of business. We are also subject to various regulatory and compliance obligations.

Off-Balance Sheet Liabilities

As part of the equity contribution associated with the sale of the Amana Appliance business in July 2001, Goodman Global, Inc. agreed to indemnify Maytag for certain product liability, product warranty, and environmental claims. In light of these potential liabilities, Goodman purchased insurance that we expect will shield us from incurring material costs for such potential claims. Other than the matters disclosed in Legal Proceedings and in Note 11 to the notes to our audited financial statements included in this prospectus, Goodman does not have any off-balance sheet arrangements.

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 senior secured credit facilities totaling $905.0 million at March 31, 2008. To reduce the risk associated with fluctuations in the interest rate of our floating rate debt, on May 12, 2008 we entered into a 2 year interest rate cap with a notional amount of $150 million. The cap rate is 7%.

For debt existing prior to the closing of the Transactions, we entered into interest rate swaps that effectively converted a portion of our variable-rate debt to fixed-rate debt. Under these swaps, we paid a specified fixed interest rate and received the variable rate applicable to the underlying debt. The interest rate swaps were designated as cash flow hedges of the underlying debt. The fair value of the swap was recorded in other assets or liabilities with a corresponding increase or decrease in other comprehensive income. The cash flow hedge was 100% effective and therefore there was no effect on current earnings from hedge ineffectiveness. In February 2005, we entered into two interest rate hedges to offset our interest rate risk. We entered into a two-year hedge with a notional amount of $150.0 million and a three-year hedge with a notional amount of $100.0 million. During the first quarter of 2007, the interest rate swap with a notional amount of $150.0 million matured based on its terms and the interest rate swap with a notional amount of $100.0 million matured based on its terms during the first quarter of 2008. The aggregate notional value (the value of the underlying debt) of interest rate swaps outstanding as of December 31, 2007 and December 31, 2006 was $100.0 million and $250.0 million, respectively. Including that $100.0 million, as of December 31, 2007, approximately 24% of our $655.4 million total debt bore interest at variable rates based upon the London Interbank Offered Rate (LIBOR). A 10% change in swap rates would have changed the fair market value of the interest rate swaps by an immaterial amount as of December 31, 2007 and approximately $0.5 million as of December 31, 2006.

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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, 2005, 2006 or 2007. Approximately 1% of our total assets are outside the United States. There has been minimal impact on our commodity costs 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. In 2007, we spent over $302.7 million on these raw materials compared to $357.0 million in 2006, with the decrease driven by lower commodity costs. 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 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 generally do not enter commodity hedges extending beyond eighteen months. During 2006 and 2007, we entered into commodity hedges for both aluminum and copper. During 2007, we entered into swaps for a portion of our aluminum and copper supply which expire by December 31, 2008. The notional value of commodity swaps outstanding as of March 31, 2008, December 31, 2007 and 2006 were $69.9 million, $143.3 million and $87.1 million, respectively. The change in the notional value was due to the timing of when we entered into the underlying commodity swap agreements. A 10% change in the price of commodities hedged would change the fair value of the hedge contracts by approximately $8.5 million, $6.9 million and $4.3 million as of March 31, 2008, December 31, 2007 and December 31, 2006, respectively.

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

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BUSINESS

Our History

Harold Goodman founded our business in 1975 with the intention to design and manufacture a product that would simplify the installation of central air conditioning. Our first product offering was flexible duct which offered several benefits over the standard metal duct that was predominantly used at the time. We expanded on the success of this initial product and entered the air conditioning equipment distribution business in 1980 and then the air conditioning equipment manufacturing business in 1982. Since our beginning, we have experienced rapid, mostly organic growth, yet maintained our core competency of manufacturing quality products at low costs that we believe provide a profitable and compelling value proposition for installing contractors, which we refer to throughout this prospectus as dealers, while allowing distributors to achieve their profit goals. In 1984, we began manufacturing heat pumps and introduced our first gas furnaces in 1985, light commercial package units in 1988 and commercial air conditioning products in 1990. In 1997, we acquired the appliance and HVAC manufacturing operations of Amana Refrigeration, Inc. from Raytheon Company. This acquisition provided us a line of premium branded appliance and HVAC products. An affiliate by common ownership controlled the brand name and the appliance operations of Amana. The non-HVAC operations of Amana were sold to Maytag Corporation in 2001. Our management team has more than 100 years of industry and related experience. During the past five years, our management team has strengthened our balance sheet by reducing inventory, decreasing costs, improving productivity and increasing customer satisfaction and market share.

On December 23, 2004, Apollo Management, L.P., or Apollo, through its affiliate, Frio Holdings LLC, acquired our business from Goodman Global Holdings, Inc., a Texas corporation, and following a reorganization, we operated as Goodman Global, Inc.

On February 13, 2008, Chill Acquisition, Inc., a Delaware corporation formed on October 15, 2007, merged with and into Goodman Global, Inc., with Goodman Global, Inc. as the surviving corporation, now a subsidiary of Chill Holdings, Inc., a Delaware corporation formed on October 12, 2007 by affiliates of Hellman & Friedman LLC. See The Transactions.

General

We are the second largest domestic manufacturer of heating, ventilation and air conditioning, or HVAC, products for residential and light commercial use based on unit sales. Our activities include engineering, manufacturing, assembling, marketing and distributing an extensive line of HVAC and related products. Our products are predominantly marketed under the Goodman®, Amana® and Quietflex® brand names. The Goodman® brand is one of the leading HVAC brands in North America 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 enhanced features such as higher efficiency and quieter operation. The Quietflex® brand is a recognized brand of flexible duct.

We sell our products through a North American distribution network with more than 850 total distribution points comprised of approximately 150 company-operated distribution centers and over 700 independent distributor locations. For the year ended December 31, 2007 and the three months ended March 31, 2008, approximately 60% of our net sales were made through company-operated distribution centers and our direct sales force with the remainder made through independent distributors. Our company-operated distribution centers in key states such as Texas, Florida, California, Arizona and Nevada provide us direct access to large and fast growing regions in North America and enable us to maintain a significant amount of market intelligence and control over how our products are distributed. Our independent distributors, many of which have multiple locations and most of which exclusively sell our products, enable us to more fully serve other major sales areas and complement our broad distribution network. We offer our independent distributors incentives to promote our

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brands, which allow them to provide dealers with our products at attractive prices while meeting their own profit targets. We believe that our growth is attributable to our strategy of providing quality, value-priced products through an extensive, growing and loyal distribution network.

We operate three manufacturing and assembly facilities in Houston, Texas, two in Tennessee, one in Arizona, and one in Florida, totaling approximately two million square feet. Since 1982, our unit volume sales and market share have grown to surpass all but one of our competitors in the residential and light commercial HVAC sector. Approximately 4% of our 2007 and first quarter 2008 net sales and approximately 1% of our total assets as of December 31, 2007 and March 31, 2008 were outside the United States.

Industry

The U.S. residential and light commercial HVAC industry is estimated at approximately $8.3 billion in annual sales and approximately 8.2 million units shipped in 2007. The top five domestic manufacturers represent over 80% of unit sales. Overall, the industry is characterized by relatively stable long-term growth, a well-established, fragmented distribution system and significant challenges for new entrants. We believe the market shares of the large, incumbent industry participants have been relatively stable in recent years, although we have continued to gain market share.

Stable, Long-Term Industry Growth. On a unit basis, the HVAC industry has grown at a compounded annual growth rate of approximately 2.9% over the last 20 years, driven primarily by increased central air conditioning penetration in both existing and new homes. According to the U.S. Census Bureau, in 2006, the latest year for which statistics are available, 89% of new single-family homes completed were equipped with central air conditioning, up from 70% in 1985, and 91% of multi-family units completed were equipped with air conditioning, up from 88% in 1985. In the U.S. Census Bureau s South Region, which accounted for 57% of housing units completed, air conditioning was installed in approximately 99% of new single-family homes. The U.S. Census Bureau reported 2.0 million privately-owned housing units were completed during 2006 and the percentage of homes completed with greater than 2,400 square feet increased to approximately 44% in 2006 from approximately 17% in 1985.

Prior to the 1980s, HVAC unit shipments were strongly correlated to new housing construction. As the overall housing base expanded due to increased new home sales and central air conditioning increased its penetration into homes, the HVAC industry became more driven by replacement demand. As older units within the large base of existing homes approach the end of their useful lives, they will need to be replaced by newer and more efficient models, creating a relatively stable base of demand for HVAC products. We estimate that replacement products currently account for approximately 70% of industry sales.

Highly Fragmented Customer Base. HVAC manufacturers sell to a highly fragmented two-tier distribution system, as no single distributor represents a large share of industry-wide HVAC sales. Additionally, the distributors customer base is a fragmented group of independent dealers across the country that buy HVAC units from distributors and install them for the ultimate end user. There is limited pricing transparency to the end user due to this tiered distribution system.

We believe that dealers become increasingly loyal as they become accustomed to the installation and service of a particular product and brand. Therefore, dealers prefer distributors that continue to carry a specific manufacturer s product and prefer product lines that do not change dramatically so that retraining is not required. If a distributor changes the brand of products it carries, that distributor risks alienating dealers who have customized their operations to maximize their efficiency in sourcing and installing the discontinued brand. This distributor/dealer dynamic further encourages independent distributors to continue carrying a specific manufacturer s products.

Significant Challenges for New Entrants. The HVAC industry is characterized by a fragmented distribution system, high switching costs for distributors and dealers and the need for sufficient production volume to

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generate economies of scale. Distributors and dealers are unlikely to switch manufacturers as a result of expenses associated with inventory stocking, marketing material and personnel training requirements. Distributors and dealers also value an established brand with an extensive history to ensure reliable warranty coverage for the end user. As manufacturers build scale, they benefit from a broader distribution network and more efficient manufacturing.

We believe domestic manufacturers represented over 90% of unit shipments in 2006, as competition from foreign manufacturers has remained limited. Foreign manufacturers are presented with logistical challenges, due to the expense of shipping HVAC products, as well as other business challenges resulting from differences in consumer preferences for single room HVAC systems abroad versus central systems domestically. Additionally, labor costs represent a small percentage of our total costs of goods sold, making it less economical to capitalize on overseas labor efficiencies, particularly given the added cost of transporting products from outside North America. While foreign competition is limited, HVAC manufacturers do source a significant amount of their components overseas which serves to reduce costs of goods sold and increase margins.

Products

We manufacture and market an extensive line of HVAC products for residential and light commercial use. These products include split-system air conditioners and heat pumps, gas furnaces, packaged units, air handlers, Package Terminal Air Conditioners/Heat Pumps, or PTACs, evaporator coils, flexible duct and accessories. Our products are predominantly marketed under the Goodman®, Amana® and Quietflex® brands.

Our principal HVAC products are outlined in the following table and summarized below.

	Size(1)	Efficiency(2)
Product line		
Split systems:		
Air conditioners	1.5 to 10 Tons	13 to 18 SEER
Heat pumps	1.5 to 10 Tons	13 to 18 SEER
Gas furnaces	45,000 140,000 BTUH	80 to 96% AFUE
Packaged units(3):		
Gas/electric	2 to 10 Tons	13 to 15 SEER
Electric/electric (A/C)	2 to 10 Tons	13 SEER
Electric/electric (heat pump)	2 to 10 Tons	13 to 15 SEER
Air handlers	1.5 to 5 Tons	NA
PTAC(3):		
A/C & electric heat coil	7,000 to 15,000 BTUH	9.5 to 12.8 EER
Heat pump	7,000 to 15,000 BTUH	9.3 to 12.8 EER
Evaporator coils	1.5 to 5 Tons	NA
Flexible duct	3 to 22	R 4.2, 6, 8

(1) Based on cooling tons of thousands of British Thermal Units Per Hour (BTUH). 12,000 BTUH = 1 ton.
(2) Measure of a product s efficiency used to rate it comparatively and to calculate energy usage and cost: SEER Seasonal Energy Efficiency Rating; AFUE Annual Fuel Utilization Efficiency; EER Energy Efficiency Rating. R-value is a comparative measure of thermal resistance used to quantify insulating properties.
(3) Products with commercial product characteristics and certain other products are not subject to the 13 SEER minimum efficiency standards.

Split-system air conditioners and heat pump units. A split-system air conditioner consists of an outdoor unit that contains a compressor and heat transfer coils and an indoor heat transfer unit with ducting to move air

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throughout the structure. A split-system heat pump is similar to a split-system air conditioner, but also includes a device that reverses the flow of refrigerant and thus heats when heating is required and cools when cooling is required.

Gas Furnaces. A gas furnace is typically used with a ducting system to heat indoor air. Furnaces use a natural gas-fueled burner and a heat exchanger to heat air and a blower to move the heated air throughout a structure through ducting.

Packaged units. A packaged unit consists of a condensing unit and an evaporator coil combined with a gas or electric heat source in a single, self-contained unit. It is typically placed outside of the structure on a ground slab or roof.

Air handlers. An air handler is a blower device used in connection with heating and cooling applications to move air throughout the indoor comfort control system.

Package terminal air conditioners. A PTAC is a single unit heating and air conditioning system used primarily in hotel and motel rooms, apartments, schools, assisted living facilities and hospitals.

Evaporator coils. An evaporator coil is a key component of the indoor section of a split-system air conditioner or heat pump unit. An evaporator coil is comprised of a heat transfer surface of copper tubes surrounded by aluminum fins in which compressed gas is permitted to expand and absorb heat, thereby cooling the air around it.

Other. Other products include flexible duct and other HVAC related products and accessories.

Distribution Network

We sell our products through a North American distribution network with more than 850 total distribution points comprised of approximately 150 company-operated distribution centers and over 700 independent distributor locations. For the year ended December 31, 2007 and the three months ended March 31, 2008, approximately 60% of our net sales were made through company-operated distribution centers and our direct sales force while the remaining 40% of our net sales were made through our independent distributors. Our distribution strategy consists of maintaining broad geographic coverage and strong distributor and dealer relationships.

We operate company-operated distribution centers in key growth states such as Texas, Florida, California, Arizona and Nevada. This strategy provides us direct access to large and fast growing regions in North America and allows us to maintain a significant amount of control over the distribution of our products. Our company-operated distribution center network provides us with considerable operational flexibility by giving us (i) direct access to dealers which provides us continuous, real-time information regarding their preferences and needs, (ii) better control over inventory through direct information flow which allows us to market our full line of products in our company-operated distribution centers, (iii) the ability to manage margins at our discretion, (iv) an additional channel in which to conduct market tests of new products and (v) the ability to introduce new products broadly and quickly. Our company-operated distribution centers employ a low-cost distribution strategy to provide competitive pricing. Since the beginning of 2004 through March 31, 2008, we added 61 net new company-operated distribution centers across North America, resulting in an approximate 66% increase in our company-operated distribution center base. We expect to continue to seek opportunities to expand our company-operated distribution center footprint in targeted North American markets.

We regularly perform market analyses to determine new distribution locations based on whether a given market is either under-served or has poor independent distributor representation. Once an under-served or poorly represented market is identified, we evaluate whether to look for a new independent distributor, open a company-operated distribution center or acquire the under-performing independent distributors.

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We maintain an extensive independent distributor network, which provides us access to major sales areas not addressed by our company-operated distribution centers. We have maintained longstanding relationships with our leading distributors. We seek to effectively align the incentives of our independent distributors, while avoiding expensive brand marketing campaigns, through the following programs:

Mark-up Rebate Programs: We offer distributor rebates that are inversely related to the distributor s markup, thus motivating distributors to meet certain pricing targets to the dealers. This program is structured to encourage distributors to pass on lower equipment costs to dealers in order to drive market share expansion while preserving the distributors margins. Through this program we are able to encourage low final prices of our products to the ultimate consumer.

Inventory Consignment: We provide inventory on consignment to many of our independent distributors. This strategy positions finished goods from our factories directly in the market to be sold as demand requires. Under the consignment program, we carry the cost of appropriate finished goods inventories until they are sold by the distributors, which substantially reduces their investment in inventory and allows us to more easily develop new distributor relationships. We also benefit from reduced warehousing costs.

New Dealer Program: We offer a program through which dealers tour our manufacturing and research facilities, are educated on our products, review our quality control process and meet with our engineers and management. This interaction allows us to provide visual reinforcement of the quality and care taken in the manufacture of our products. The program also provides us with the opportunity to garner direct feedback from dealers on end user receptivity to current products, as well as gauge the dealers interest in future products ahead of a broader product introduction.

Our independent distributor network provides us market access where we do not employ company-operated distribution centers. Independent distributors are typically selected and retained on the basis of (i) a demonstrated ability to meet or exceed performance targets, (ii) a solid financial position and (iii) operating with a low-cost structure and competitive pricing. Our selection process coupled with our incentive programs, which make switching costs high, has resulted in a low distributor turnover rate. Since the beginning of 2004, we added approximately 200 new independent distributor locations through the addition of new distributors or the expansion of existing distributors.

We also seek to broaden our customer base by developing new customer relationships with national homebuilders and further developing our customer relationships with large national and regional homebuilders. We believe these relationships will increase sales and continue to add credibility and visibility to our brand names and products.

Manufacturing

We operate three manufacturing and assembly facilities in Houston, Texas, two in Tennessee, one in Arizona and one in Florida, totaling approximately two million square feet. At all of our manufacturing facilities, we focus on low-cost production techniques and technology to continually reduce manufacturing costs while improving product quality. Our low-cost design is one of the key drivers of our value proposition. We believe we have sufficient capacity to achieve our business goals for the foreseeable future without the need for further expansion.

Our manufacturing process strategy is to minimize raw materials, component and in-process inventory levels. To achieve this goal, we have standardized many of the production components (e.g., heat exchangers, compressors and coils), which enables us to quickly retool our facilities in order to meet the demand for various products. In addition, we employ a demand flow manufacturing process which coordinates the production of each component thereby reducing raw materials and in-process inventories. We utilize a mix of automated and manual processes to help ensure efficiency and lower costs.