

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

☒ [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended October 4, 2003

OR

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

For the transition period from _____ to _____

1-6112
(Commission File Number)

NORTEK, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

05-0314991
(I.R.S. Employer
Identification No.)

50 Kennedy Plaza, Providence, RI
(Address of principal executive offices)

02903-2360
(Zip Code)

(401) 751-1600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ [X] No ☐ []

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ [X] No ☐ []

The number of shares of Common Stock outstanding as of November 13, 2003 was 100.

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	October 4, <u>2003</u>	December 31, <u>2002</u>
	<i>(Amounts in thousands)</i>	
	<i>(Unaudited)</i>	
Assets		
Current Assets:		
Unrestricted:		
Cash and cash equivalents	\$ 121,026	\$ 294,804
Restricted:		
Cash, investments and marketable securities at cost, which approximates market	1,538	4,340
Accounts receivable, less allowances of \$15,094,000 and \$13,132,000	301,037	225,632
Inventories:		
Raw materials	79,435	72,702
Work in process	23,770	19,719
Finished goods	<u>108,121</u>	<u>83,464</u>
	<u>211,326</u>	<u>175,885</u>
Prepaid expenses	13,121	15,523
Other current assets	19,019	10,770
Prepaid income taxes	<u>31,570</u>	<u>27,064</u>
Total current assets	<u>698,637</u>	<u>754,018</u>
 Property and Equipment, at Cost:		
Land	23,861	14,126
Buildings and improvements	119,109	134,619
Machinery and equipment	<u>256,309</u>	<u>358,066</u>
	399,279	506,811
Less accumulated depreciation	<u>21,973</u>	<u>239,818</u>
Total property and equipment, net	<u>377,306</u>	<u>266,993</u>
 Other Assets:		
Goodwill	844,023	551,162
Intangible assets, less accumulated amortization of \$8,938,000 and \$34,010,000	174,717	109,915
Deferred debt expense	3,194	19,687
Restricted investments and marketable securities held by pension trusts	---	76,503
Other	<u>18,776</u>	<u>42,666</u>
	<u>1,040,710</u>	<u>799,933</u>
	<u><u>\$2,116,653</u></u>	<u><u>\$1,820,944</u></u>

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

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Continued)

	October 4, <u>2003</u>	December 31, <u>2002</u>
	<i>(Amounts in thousands)</i>	
	<i>(Unaudited)</i>	
Liabilities and Stockholder's Investment		
Current Liabilities:		
Notes payable and other short-term obligations	\$ 4,584	\$ 3,338
Current maturities of long-term debt	4,309	3,449
Accounts payable	150,089	126,400
Accrued expenses and taxes, net	<u>188,149</u>	<u>169,746</u>
Total current liabilities	<u>347,131</u>	<u>302,933</u>
Other Liabilities:		
Deferred income taxes	87,300	21,625
Other	<u>159,067</u>	<u>195,249</u>
	<u>246,367</u>	<u>216,874</u>
Notes, Mortgage Notes and Obligations		
Payable, Less Current Maturities	<u>1,005,317</u>	<u>983,632</u>
Stockholder's Investment:		
Common stock, \$.01 par value; authorized 100 shares, 100 shares issued and outstanding at October 4, 2003 and December 31, 2002	---	---
Additional paid-in capital	441,845	119,621
Retained earnings	62,500	255,366
Accumulated other comprehensive income (loss)	<u>13,493</u>	<u>(57,482)</u>
Total stockholder's investment	<u>517,838</u>	<u>317,505</u>
	<u>\$2,116,653</u>	<u>\$1,820,944</u>

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

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For The	
	<u>Three Months Ended</u>	
	<u>Post-</u>	<u>Pre-</u>
	<u>Recapitalization</u>	<u>Recapitalization</u>
	<u>October 4,</u>	<u>September 28,</u>
	<u>2003</u>	<u>2002</u>
	<i>(Amounts in thousands)</i>	
	<i>(Unaudited)</i>	
Net Sales	<u>\$ 555,102</u>	<u>\$ 504,583</u>
Costs and Expenses:		
Cost of products sold	393,032	365,726
Selling, general and administrative expenses, net	84,495	83,449
Amortization of intangible assets	3,055	1,467
Expenses and charges arising from the Recapitalization	<u>---</u>	<u>1,000</u>
	<u>480,582</u>	<u>451,642</u>
Operating earnings	74,520	52,941
Interest expense	(22,838)	(23,993)
Investment income	<u>318</u>	<u>1,852</u>
Earnings from continuing operations before provision for income taxes	52,000	30,800
Provision for income taxes	<u>21,900</u>	<u>14,200</u>
Earnings from continuing operations	30,100	16,600
Earnings from discontinued operations	<u>---</u>	<u>100</u>
Net earnings	<u>\$ 30,100</u>	<u>\$ 16,700</u>

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

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
	<i>(Amounts in thousands)</i> <i>(Unaudited)</i>		
Net Sales	<u>\$1,534,806</u>	<u>\$ 33,775</u>	<u>\$ 1,451,514</u>
Costs and Expenses:			
Cost of products sold	1,107,189	26,286	1,044,940
Selling, general and administrative expense	242,999	6,485	244,040
Amortization of intangible assets	8,956	137	4,459
Expenses and charges arising from the Recapitalization	---	87,700	6,200
	<u>1,359,144</u>	<u>120,608</u>	<u>1,299,639</u>
Operating earnings (loss)	175,662	(86,833)	151,875
Interest expense	(71,039)	(2,288)	(72,383)
Investment income	<u>1,077</u>	<u>121</u>	<u>5,508</u>
Earnings (loss) from continuing operations before provision (benefit) for income taxes	105,700	(89,000)	85,000
Provision (benefit) for income taxes	<u>43,200</u>	<u>(24,100)</u>	<u>35,700</u>
Earnings (loss) from continuing operations	62,500	(64,900)	49,300
Earnings from discontinued operations	---	---	5,700
Net earnings (loss)	<u>\$ 62,500</u>	<u>\$ (64,900)</u>	<u>\$ 55,000</u>

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

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
	<i>(Amounts in thousands)</i> <i>(Unaudited)</i>		
Cash Flows from operating activities:			
Net earnings (loss) from continuing operations	\$ 62,500	\$ (64,900)	\$ 49,300
Earnings from discontinued operations	---	---	5,700
Net earnings (loss)	<u>62,500</u>	<u>(64,900)</u>	<u>55,000</u>
Adjustments to reconcile net earnings (loss) to cash:			
Depreciation and amortization expense	28,362	968	32,605
Non-cash write-off of inventory	6,685	---	---
Non-cash interest expense, net (including \$4,100,000 from post-Recapitalization amortization of the Bridge Facility commitment fees and expenses)	3,273	131	1,864
Gain on the sale of a discontinued business	---	---	(5,400)
Deferred federal income tax provision (credit)	34,700	(23,900)	---
Effect of the Recapitalization, net	---	65,397	---
Changes in certain assets and liabilities, net of effects from acquisitions and dispositions:			
Accounts receivable, net	(61,940)	2,749	(53,473)
Inventories	(12,202)	(3,444)	2,065
Prepays and other current assets	861	204	1,180
Net assets of discontinued operations	---	---	(1,696)
Accounts payable	14,915	957	13,389
Accrued expenses and taxes	(10,553)	10,648	37,773
Long-term assets, liabilities and other, net	(94)	5,578	8,281
Total adjustments to net earnings (loss)	<u>4,007</u>	<u>59,288</u>	<u>36,588</u>
Net cash provided by (used in) operating activities	<u>\$ 66,507</u>	<u>\$ (5,612)</u>	<u>\$ 91,588</u>

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NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)

	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
	<i>(Amounts in thousands)</i>		
	<i>(Unaudited)</i>		
Cash Flows from investing activities:			
Capital expenditures	\$ (14,459)	\$ (556)	\$ (16,009)
Net cash paid for businesses acquired	(73,356)	---	---
Purchase of investments and marketable securities	(30,015)	---	(306,210)
Proceeds from the sale of investments and marketable securities	30,015	---	291,071
Proceeds from the sale of a discontinued business	---	---	20,816
Change in restricted cash and investments	2,789	(48)	(2,247)
Other, net	<u>(632)</u>	<u>157</u>	<u>(4,808)</u>
Net cash used in investing activities	<u>(85,658)</u>	<u>(447)</u>	<u>(17,387)</u>
Cash Flows from financing activities:			
Change in borrowings, net	(872)	(1,358)	(65,004)
Dividend paid to Nortek Holdings	---	(120,000)	---
Contribution of capital from Nortek Holdings	1,000	4,603	---
Net cash transfers to Nortek Holdings	---	(27,900)	---
Other, net	<u>(254)</u>	<u>(3,787)</u>	<u>(3,052)</u>
Net cash used in financing activities	<u>(126)</u>	<u>(148,442)</u>	<u>(68,056)</u>
Net decrease in unrestricted cash and cash equivalents	(19,277)	(154,501)	6,145
Unrestricted cash and cash equivalents at the beginning of the period	<u>140,303</u>	<u>294,804</u>	<u>159,368</u>
Unrestricted cash and cash equivalents at the end of the period	<u>\$ 121,026</u>	<u>\$ 140,303</u>	<u>\$ 165,513</u>
Supplemental disclosure of cash flow information:			
Interest paid	<u>\$ 78,788</u>	<u>\$ ---</u>	<u>\$ 80,169</u>
Income taxes paid, net	<u>\$ 8,112</u>	<u>\$ 281</u>	<u>\$ 14,980</u>
Non-cash items:			
Capital lease additions	<u>\$ 7,587</u>	<u>\$ ---</u>	<u>\$ ---</u>

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

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S INVESTMENT
FOR THE THREE MONTHS ENDED SEPTEMBER 28, 2002

	<u>Common Stock</u>	<u>Special Common Stock</u>	<u>Addi- tional Paid in Capital</u>	<u>Retained Earnings</u> <i>(Amounts in thousands)</i> <i>(Unaudited)</i>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Comprehensive Income (Loss)</u>
Balance, June 29, 2002	\$18,870	\$802	\$210,804	\$231,166	\$(111,686)	\$(34,175)	\$ ---
Net earnings	---	---	---	16,700	---	---	16,700
Other comprehensive income (loss):							
Currency translation adjustment	---	---	---	---	---	(2,209)	(2,209)
Unrealized decline in the fair value of marketable securities	---	---	---	---	---	(304)	<u>(304)</u>
Comprehensive income							<u>\$14,187</u>
3,259 shares of special common stock converted into 3,259 shares of common stock	3	(3)	---	---	---	---	
The effect of directors' stock options	---	---	734	---	---	---	
Balance, September 28, 2002	<u>\$18,873</u>	<u>\$799</u>	<u>\$211,538</u>	<u>\$247,866</u>	<u>\$(111,686)</u>	<u>\$(36,688)</u>	

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NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S INVESTMENT
FOR THE NINE MONTHS ENDED SEPTEMBER 28, 2002

	<u>Common Stock</u>	<u>Special Common Stock</u>	<u>Addi- tional Paid in Capital</u>	<u>Retained Earnings</u> <i>(Amounts in thousands)</i> <i>(Unaudited)</i>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Comprehensive Income (Loss)</u>
Balance, December 31, 2001	\$18,829	\$814	\$210,214	\$192,866	\$(111,685)	\$(39,725)	\$ ---
Net earnings	---	---	---	55,000	---	---	55,000
Other comprehensive income (loss):							
Currency translation adjustment	---	---	---	---	---	3,317	3,317
Unrealized decline in the fair value of marketable securities	---	---	---	---	---	(280)	<u>(280)</u>
Comprehensive income							<u>\$58,037</u>
15,464 shares of special common stock converted into 15,464 shares of common stock	15	(15)	---	---	---	---	
28,213 shares of common stock issued upon exercise of stock options	29	---	590	---	---	---	
The effect of directors' stock options	---	---	734	---	---	---	
33 shares of treasury stock acquired	---	---	---	---	(1)	---	
Balance, September 28, 2002	<u>\$18,873</u>	<u>\$799</u>	<u>\$211,538</u>	<u>\$247,866</u>	<u>\$(111,686)</u>	<u>\$(36,688)</u>	

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

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S INVESTMENT
FOR THE PERIOD FROM JANUARY 1, 2003 TO JANUARY 9, 2003

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Comprehensive Income (Loss)</u>
			<i>(Amounts in thousands)</i> <i>(Unaudited)</i>		
Balance, December 31, 2002	\$ ---	\$119,621	\$ 255,366	\$ (57,482)	\$ ---
Net loss	---	---	(64,900)	---	(64,900)
Other comprehensive income:					
Currency translation adjustment	---	---	---	1,096	1,096
Minimum pension liability, net of tax of \$9,906,000	---	---	---	18,398	<u>18,398</u>
Comprehensive loss					<u>\$ (45,406)</u>
Dividend to Nortek Holdings, Inc.	---	---	(120,000)	---	
Contribution of capital from Nortek Holdings, Inc.	---	<u>4,603</u>	---	---	
Subtotal	\$ ---	\$124,224	\$ 70,466	\$ (37,988)	
Effect of the Recapitalization	---	<u>316,613</u>	<u>(70,466)</u>	<u>37,988</u>	
Balance, January 9, 2003	<u>\$ ---</u>	<u>\$440,837</u>	<u>\$ ---</u>	<u>\$ ---</u>	

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S INVESTMENT
FOR THE THREE MONTHS ENDED OCTOBER 4, 2003

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u> <i>(Amounts in thousands)</i> <i>(Unaudited)</i>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Comprehensive Income (Loss)</u>
Balance, July 5, 2003	\$ ---	\$ 440,842	\$ 32,400	\$ 12,983	\$ ---
Net earnings	---	---	30,100	---	30,100
Other comprehensive income (loss):					
Currency translation adjustment	---	---	---	546	546
Unrealized decline in the fair value of marketable securities	---	---	---	(36)	<u>(36)</u>
Comprehensive income					<u>\$ 30,610</u>
Contribution of capital from Nortek Holdings, Inc.	---	1,000	---	---	
Amortization of compensatory stock options	<u>---</u>	<u>3</u>	<u>---</u>	<u>---</u>	
Balance, October 4, 2003	<u>\$ ---</u>	<u>\$ 441,845</u>	<u>\$ 62,500</u>	<u>\$ 13,493</u>	

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

NORTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S INVESTMENT
FOR THE PERIOD FROM JANUARY 10, 2003 TO OCTOBER 4, 2003

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u> <i>(Amounts in thousands)</i> <i>(Unaudited)</i>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Comprehensive Income (Loss)</u>
Balance, January 9, 2003	\$ ---	\$ 440,837	\$ ---	\$ ---	\$ ---
Net earnings	---	---	62,500	---	62,500
Other comprehensive income (loss):					
Currency translation adjustment	---	---	---	13,499	13,499
Unrealized decline in the fair value of marketable securities	---	---	---	(6)	(6)
Comprehensive income					<u>\$ 75,993</u>
Contribution of capital from Nortek Holdings, Inc.	---	1,000	---	---	
Amortization of compensatory stock options	---	8	---	---	
Balance, October 4, 2003	<u>\$ ---</u>	<u>\$ 441,845</u>	<u>\$ 62,500</u>	<u>\$ 13,493</u>	

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

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
OCTOBER 4, 2003 AND SEPTEMBER 28, 2002

- (A) The unaudited condensed consolidated financial statements (the “Unaudited Financial Statements”) presented have been prepared by Nortek, Inc. and include the accounts of Nortek, Inc., and all of its wholly-owned subsidiaries (the “Company” or “Nortek”) after elimination of intercompany accounts and transactions, without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the interim periods presented. Although certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted, the Company believes that the disclosures included are adequate to make the information presented not misleading. In 2002, the Company sold certain subsidiaries of its wholly-owned subsidiary, Ply Gem Industries, Inc. (“Ply Gem”). The sale of these subsidiaries and their related operating results have been excluded from earnings (loss) from continuing operations and are classified as discontinued operations for all periods presented (see Note H). Certain amounts in the prior year’s Unaudited Financial Statements have been reclassified to conform to the current year presentation. It is suggested that these Unaudited Financial Statements be read in conjunction with the consolidated financial statements and the notes included in the Company’s latest annual report on Form 10-K and its latest Current Reports on Form 8-K as filed with the Securities and Exchange Commission (“SEC”) (see Note B).

On November 20, 2002, the Company reorganized into a holding company structure and each outstanding share of capital stock of the Company was converted into an identical share of capital stock of Nortek Holdings, Inc. (“Nortek Holdings”), a Delaware corporation formed in 2002, with Nortek Holdings becoming the successor company and the Company becoming a wholly-owned subsidiary of Nortek Holdings (the “Nortek Holdings Reorganization”). On January 9, 2003, Nortek Holdings, the parent company of Nortek, was acquired by certain affiliates and designees of Kelso & Company L.P. (“Kelso”) and certain members of the Company’s management (the “Management Investors”) in accordance with the Agreement and Plan of Recapitalization by and among Nortek, Inc., Nortek Holdings, Inc. and K Holdings, Inc. (“K Holdings”) dated as of June 20, 2002, as amended, (the “Recapitalization Agreement”) in a transaction valued at approximately \$1.6 billion, including all of the Company’s indebtedness (the “Recapitalization”) (see Note B).

Beginning on January 9, 2003, the Company and Nortek Holdings accounted for the Recapitalization as a purchase in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations” (“SFAS No. 141”), which resulted in a new valuation for the assets and liabilities of Nortek Holdings and its subsidiaries based upon fair values as of the date of the Recapitalization. As allowed under SEC Staff Accounting Bulletin No. 54, “Push Down Basis of Accounting Required in Certain Limited Circumstances”, the Company has reflected all applicable purchase accounting adjustments recorded by Nortek Holdings in the Company’s condensed consolidated financial statements for all SEC filings covering periods subsequent to the Recapitalization (“Push Down Accounting”). Push Down Accounting requires the Company to establish a new basis for its assets and liabilities based on the amount paid for its ownership at January 9, 2003. Accordingly, Nortek Holdings’ ownership basis (including the fair value of options rolled over by the

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
OCTOBER 4, 2003 AND SEPTEMBER 28, 2002
(Continued)

Management Investors) is reflected in Nortek's condensed consolidated financial statements beginning upon completion of the Recapitalization. In order to apply Push Down Accounting, Nortek Holdings' purchase price of approximately \$468,737,000 was allocated to the assets and liabilities based on their relative fair values and approximately \$440,837,000 was reflected in the Company's Stockholder's Investment as the value of Nortek Holdings' ownership in the Company upon completion of the Recapitalization. Immediately prior to the Recapitalization, the Company's Stockholder's Investment was approximately \$156,702,000. Purchase price allocations are subject to refinement until all pertinent information is obtained. As of January 10, 2003, the Company preliminarily allocated the excess purchase price over the net assets acquired in the Recapitalization based on its estimates of the fair value of assets and liabilities as follows:

	<u>Excess purchase price of the Recapitalization allocated to</u>
Inventories	\$ 13,234,000
Property, plant and equipment	102,474,000
Intangible assets	72,953,000
Goodwill	232,372,000
Indebtedness	(33,776,000)
Prepaid and deferred income taxes	(51,611,000)
Pension and post retirement health care benefits	(24,044,000)
Other	<u>433,000</u>
Total	<u>\$ 312,035,000</u>

During the period from January 10, 2003 to October 4, 2003, the Company reflected approximately \$6,000,000 of excess purchase price allocated to inventory as a non-cash charge to cost of goods sold. There was no additional non-cash charge to cost of goods sold in the three months ended October 4, 2003 arising from excess purchase price from the Recapitalization allocated to inventory. During the three months ended October 4, 2003 and the period from January 10, 2003 to October 4, 2003, the Company reflected approximately \$3,400,000 and \$9,700,000, respectively, of lower depreciation expense in cost of sales, approximately \$1,600,000 and \$4,600,000, respectively, of additional amortization expense of intangible assets and approximately \$1,500,000 and \$4,300,000, respectively, of lower interest expense from the amortization of premium allocated to indebtedness as compared to the Company's historical basis of accounting prior to the Recapitalization.

The Company has estimated the fair value of its assets and liabilities, including intangible assets and property, plant and equipment, as of the Recapitalization, utilizing information available at the time that the Company's Unaudited Financial Statements were prepared and these estimates are subject to refinement until all pertinent information has been obtained. The Company is in the process of obtaining outside third party appraisals of its intangible assets and property, plant and equipment.

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
OCTOBER 4, 2003 AND SEPTEMBER 28, 2002
(Continued)

The impact of these fair value estimates has been reflected in the Company's condensed consolidated statement of operations for the periods ended October 4, 2003. Should the intangible asset or property, plant and equipment appraisals result in differences in the average amortizable or depreciable lives of these assets or in the fair value amount of the estimates, the following estimated changes in annual operating earnings would occur:

	Increase (decrease) in operating earnings		
	Property, Plant and Equipment	Intangible Assets	Total
If lives are one year greater	\$ 1,800,000	\$ 800,000	\$ 2,600,000
If lives are one year less	(2,100,000)	(900,000)	(3,000,000)
If fair value is \$10,000,000 greater	(800,000)	(700,000)	(1,500,000)
If fair value is \$10,000,000 less	800,000	700,000	1,500,000

The combined periods from January 1, 2003 to January 9, 2003 and from January 10, 2003 to October 4, 2003 contain 277 days while the first nine months of 2002 contained 271 days. Accordingly, operating results for 2003 include approximately \$1,000,000 of additional interest expense as compared to 2002 since the Company accrues interest expense based on the number of days contained in each reporting period.

(B) On January 8, 2003, at a special meeting of stockholders of Nortek Holdings, the stockholders approved the following amendments to the certificate of incorporation (the "Stockholder Approval"), which were required in order to complete the Recapitalization:

- A new class of common stock, Class A Common Stock, par value \$1.00 per share, of Nortek Holdings was created consisting of 19,000,000 authorized shares.
- At the time that the amendment to the certificate of incorporation became effective, each share of common stock, par value \$1.00 per share and special common stock, par value \$1.00 per share outstanding, was reclassified into one share of a new class of mandatorily redeemable common stock, Class B Common Stock, par value \$1.00 per share, of Nortek Holdings consisting of 14,000,000 authorized shares.
- Class B Common Stock was required to be immediately redeemed for \$46 per share in cash upon completion of the Recapitalization.
- The authorized number of shares of Series B Preference Stock, par value \$1.00 per share, was increased to 19,000,000 authorized shares.

Following the Stockholder Approval, common stock and special common stock held by the Management Investors were exchanged for an equal number of newly created shares of Series B Preference Stock. In addition, certain options to purchase shares of common and special common stock held by the Management Investors were exchanged for fully

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vested options to purchase an equal number of shares of the newly created Class A Common Stock. The remaining outstanding options, including some held by Management Investors, were cancelled in exchange for the right to receive a single lump sum cash payment equal to the product of the number of shares of common stock or special common stock underlying the option and the amount by which the redemption price of \$46 per share exceeded the per share exercise price of the option.

On January 9, 2003, in connection with the Recapitalization, Kelso purchased newly issued shares of Series B Preference Stock for approximately \$355,923,000 and purchased shares of Series B Preference Stock held by the Management Investors for approximately \$18,077,000. Newly issued Class A Common Stock of approximately \$3,262,000 was purchased by designated third parties. Shares of Series B Preference Stock held by the Management Investors that were not purchased by Kelso were converted into an equal number of shares of Class A Common Stock. In addition, the Company declared and distributed to Nortek Holdings a dividend of approximately \$120,000,000 and distributed approximately \$27,900,000 for reimbursement of fees and expenses of Kelso, which were paid out of the Company's unrestricted cash and cash equivalents on hand and were permissible under the most restrictive covenants with respect to the indentures of the Company's 8 7/8% Senior Notes due 2008, 9 1/4% Senior Notes due 2007, 9 1/8% Senior Notes due 2007 and 9 7/8% Senior Subordinated Notes due 2011 (the "Existing Notes").

Nortek Holdings used the proceeds from the purchase by Kelso and designated third parties of the newly issued Series B Preference Stock and Class A Common Stock and the dividend from Nortek to redeem Nortek Holdings' Class B Common Stock and to cash out options to purchase common and special common stock totaling approximately \$479,185,000. Kelso also purchased from certain Management Investors 392,978 shares of Series B Preference Stock for approximately \$18,077,000.

In connection with the Recapitalization, K Holdings received a bridge financing letter from a lender for a senior unsecured term loan facility not to exceed \$955,000,000 (the "Bridge Facility"). The Bridge Facility was intended to be used to fund, if necessary, any change in control offers the Company might have made in connection with the Recapitalization. The Company did not use this Bridge Facility because the structure of the Recapitalization did not require the Company to make any change of control offers. The commitment letter expired on January 31, 2003. As a result, the Company's consolidated interest expense for the period from January 10, 2003 to October 4, 2003 includes approximately \$4,100,000 of interest expense from the amortization of the Bridge Facility commitment fees and related expenses. In the third quarter of 2003, the Company did not incur any interest expense related to this commitment letter.

In January 2003, Nortek Holdings filed for the deregistration of its shares of common and special common stock under the Securities Exchange Act of 1934. Nortek Holdings' shares of common and special common stock are no longer publicly traded. The Company will continue to file periodic reports with the SEC as required by the respective indentures of the Company's Existing Notes.

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Under the terms of one of the Company's supplemental executive retirement plans ("SERP"), the Company was required to make one-time cash payments to participants in such plan in satisfaction of obligations under that plan when the Recapitalization was completed. Accordingly, the Company made a distribution of approximately \$75,100,000 to the participants in the plan from funds included in the Company's Consolidated Balance Sheet at December 31, 2002 and classified in long-term assets in restricted investments and marketable securities held by pension trusts and transferred to one of the participants a life insurance policy with approximately \$10,300,000 of cash surrender value to satisfy a portion of the SERP's obligation to such participant. The termination and settlement of the obligation of this SERP resulted in a curtailment loss on January 9, 2003 (see Note F).

The total amount of transaction fees and related costs incurred by the Company and Kelso associated with the Recapitalization was approximately \$47,348,000, including the \$27,900,000 noted above, of which approximately \$10,500,000 of advisory fees and expenses was paid to Kelso. A portion of these fees and expenses was recorded by the Company in selling, general and administrative expense, since they were obligations of the Company prior to the Recapitalization. Approximately \$12,848,000 was recorded as expense on January 9, 2003 since these fees and expenses became obligations of the Company upon consummation of the Recapitalization (see Note F). Approximately \$6,600,000 of expense was previously recorded by the Company in the year ended December 31, 2002, of which \$1,000,000 and \$6,200,000 was recorded in the third quarter and first nine months of 2002, respectively.

The following reflects the pro forma effect of the Recapitalization for the periods presented through January 9, 2003:

	For the Period Jan. 1, 2003 - <u>Jan. 9, 2003</u>	For the Three Months Ended <u>Sept. 28, 2002</u>	For the Nine Months Ended <u>Sept. 28, 2002</u>	For the Year ended <u>Dec. 31, 2002</u>
	<i>(Amounts in thousands)</i>			
Net sales	\$ 33,775	\$ 504,583	\$ 1,451,514	\$ 1,888,292
Operating earnings	832	56,226	159,192	197,442
Earnings (loss) from continuing operations	(1,126)	23,116	53,192	64,998

The unaudited pro forma condensed consolidated summary of operations for the periods presented has been prepared by adjusting the Company's historical summary of operations to give effect to the Recapitalization as if it had occurred on January 1, 2002. Fees, expenses and charges resulting from the Recapitalization, including the \$6,600,000 noted above, have been excluded from the above pro forma financial data since this pro forma data assumes that the Recapitalization occurred on January 1, 2002 (see Note F). The information contained in this unaudited pro forma condensed consolidated summary of operations has been prepared utilizing information available at the time that the Company's Unaudited Financial Statements were prepared and is subject to refinement

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until all pertinent information has been obtained. The unaudited pro forma condensed consolidated summary of operations reflects the Company's estimate of the effect of fair value adjustments for inventory, property, plant and equipment, intangible assets, pension, debt and financing costs and their related deferred tax attributes. The excess of the purchase price over the historical basis of net assets and these fair value adjustments was recorded as goodwill. Property, plant and equipment, intangible assets and certain other assets and liabilities and related tax attributes have been adjusted to fair value in the Company's condensed consolidated balance sheet on October 4, 2003 based on Company estimates. Certain pertinent information related to the fair value of these items has not yet been obtained or completed. Pertinent information not yet obtained or completed includes, among other items, third party appraisals of intangible assets and property, plant and equipment and their related deferred tax attributes.

- (C) SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with early adoption permitted. The Company adopted SFAS No. 143 on January 1, 2003. Adoption of this accounting standard was not material to the Company's Unaudited Financial Statements.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" ("SFAS No. 145"), was issued in April 2002 and addresses the reporting of gains and losses resulting from the extinguishment of debt, accounting for sale-leaseback transactions and rescinds or amends other existing authoritative pronouncements. SFAS No. 145 requires that any gain or loss on extinguishment of debt that does not meet the criteria of APB 30 for classification as an extraordinary item shall not be classified as extraordinary and shall be included in earnings from continuing operations. The provisions of this statement related to the extinguishment of debt are effective for financial statements issued in fiscal years beginning after May 15, 2002 with early application encouraged. The Company adopted SFAS No. 145 on January 1, 2003 and adoption of this accounting standard was not material to the results presented in the Unaudited Financial Statements.

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which addresses the accounting and reporting for costs associated with exit or disposal activities, nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3") and substantially nullifies EITF Issue No. 88-10, "Costs Associated with Lease Modification or Termination" ("EITF 88-10"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost as defined in EITF 94-3 was recognized at the date of an entity's commitment to

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an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company's Unaudited Financial Statements (see Note N).

On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting". The Company accounts for stock-based compensation in accordance with APB No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company has provided the required disclosures under SFAS No. 148 (see Note L).

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). Along with new disclosure requirements, FIN 45 requires guarantors to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. This differs from the prior practice to record a liability only when a loss is probable and reasonably estimable. The recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company adopted the disclosure provisions of FIN 45 as of December 31, 2002 and adopted the entire interpretation on January 1, 2003. Adoption of FIN 45 was not material to the Company's Unaudited Financial Statements (see Note M).

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN 46 apply to the Company immediately for variable interest entities created after January 31, 2003 and for existing variable interest entities no later than the end of the first annual reporting period beginning after December 15, 2003. The Company is currently evaluating the impact of adopting FIN 46 on its consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"), which clarifies the financial accounting and reporting proscribed by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") for derivative instruments, including certain derivative instruments embedded in other contracts. Certain provisions of SFAS No. 149 related to implementation issues of SFAS No. 133 are already effective and other provisions related to forward purchases or sales are

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effective for both existing contracts and new contracts entered into after June 30, 2003. The Company has previously adopted SFAS No. 133, including the implementation issues addressed in SFAS No. 149, and the adoption of the new provisions of SFAS No. 149 on July 1, 2003 did not have a material impact on the Company's Unaudited Financial Statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"), which addresses the accounting and reporting for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and for all existing financial instruments beginning in the first interim period after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, which are subject to the provisions for the first fiscal period beginning after December 15, 2004. The Company adopted SFAS No. 150 on July 1, 2003. Adoption of this accounting standard did not have a material impact on the Company's Unaudited Financial Statements.

- (D) The period from January 10, 2003 to October 4, 2003 includes approximately \$4,100,000 of interest expense from the amortization of the Bridge Facility commitment entered into as part of the Recapitalization (see Note B). Interest expense for the third quarter and first nine months of 2002 includes a non-cash reduction in interest expense of approximately \$400,000 and \$1,200,000, respectively related to the Company's former interest rate collar agreement, which was terminated in August 2002.
- (E) On January 17, 2003, the Company acquired Elan Home Systems L.L.C. ("Elan") for an aggregate purchase price of approximately \$18,900,000 including a \$1,500,000 note payable to the sellers. Elan manufactures and sells consumer electronic equipment that controls whole-house entertainment, communication and automation systems for new residential construction and retrofit markets. For the year ended December 31, 2002, Elan reported net sales of approximately \$21,300,000 (unaudited). On July 11, 2003, the Company acquired SpeakerCraft, Inc. ("SPC") for approximately \$58,100,000 in cash. SPC is a leading designer and supplier of architectural loudspeakers and audio products used in residential custom applications. For the year ended December 31, 2002, SPC reported net sales of approximately \$34,800,000 (unaudited). Acquisitions contributed approximately \$16,867,000 and \$27,996,000 to net sales for the three months ended October 4, 2003 and for the period from January 10, 2003 to October 4, 2003, respectively, and contributed approximately \$2,783,000 and \$4,342,000 to operating earnings for the three months ended October 4, 2003 and for the period from January 10, 2003 to October 4, 2003, respectively. Elan and SPC are included in the Residential Building Products Segment in the Company's segment reporting. Pro forma results related to these acquisitions have not been presented, as the effect is not significant to the Company's consolidated operating results.

Acquisitions are accounted for as purchases and, accordingly, have been included in the Company's consolidated results of operations since the acquisition date. Purchase price

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allocations are subject to refinement until all pertinent information regarding the acquisitions is obtained.

- (F) For the nine days ended January 9, 2003, the Company incurred certain charges in connection with the Recapitalization. These charges were as follows:

Curtailment loss upon termination of a SERP	\$ 70,142,000
Recapitalization fees, expenses and other	12,848,000
Compensation expense from the settlement and cancellation of stock options	<u>4,710,000</u>
	<u>\$87,700,000</u>

The operating results of the Air Conditioning and Heating Products Segment for the three months ended October 4, 2003 and the period from January 10, 2003 to October 4, 2003 include approximately \$2,300,000 and \$3,700,000, respectively, of severance and other costs associated with the closure of certain manufacturing facilities. The operating results of the Air Conditioning and Heating Products Segment for the three months ended October 4, 2003 and the period from January 10, 2003 to October 4, 2003 also include approximately \$400,000 and \$1,000,000, respectively, of expenses associated with the start-up of a new manufacturing facility. The operating results of the Windows, Doors and Siding Products Segment for the period from January 10, 2003 to October 4, 2003 include approximately \$600,000 of severance and other costs associated with the closure of certain manufacturing facilities. The operating results of the Windows, Doors and Siding Products segment for the period from January 10, 2003 to October 4, 2003 also include approximately \$1,300,000 of costs and expenses for expanded distribution including new customers. There were no additional costs and expenses incurred related to the closure of certain manufacturing facilities or the expanded distribution in the Windows, Doors and Siding Products Segment in the third quarter of 2003.

In the second quarter of 2002, approximately \$4,400,000 was charged to operating earnings and is included in selling, general and administrative expenses relating to an incentive earned by certain of the Company's officers under the Company's 1999 Equity Performance Plan. In addition, as discussed in Note B, the Company has recorded expenses of approximately \$1,000,000 and \$6,200,000 in selling, general and administrative expenses in the third quarter and first nine months of 2002, respectively, related to fees and expenses associated with the Recapitalization of the Company. In the third quarter of 2002, the Company incurred approximately \$2,100,000 in connection with its re-audit of the Company's Consolidated Financial Statements for each of the three years in the period ended December 31, 2001 (see Notes B and H). In the third quarter of 2002, the Company incurred approximately \$1,600,000 of direct expenses and third party fees associated with the Company's strategic sourcing initiative which are recorded in Other in the Company's segment reporting.

- (G) At November 13, 2003, there was approximately \$22,300,000 available for the payment of cash dividends, stock purchases or other restricted payments as defined under the terms of the Company's most restrictive debt covenant related to such payments.

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- (H) On April 2, 2002, Ply Gem sold the capital stock of its subsidiary Hoover Treated Wood Products, Inc. ("Hoover"). On November 22, 2002, Ply Gem sold the capital stock of its subsidiary Richwood Building Products, Inc. ("Richwood"). The sale of these subsidiaries and their related operating results have been excluded from earnings from continuing operations and are classified as discontinued operations for all periods presented.

The following is a summary of the results of discontinued operations for the three and nine months ended September 28, 2002:

	Three Months <u>Ended</u> <u>September 28, 2002</u> <i>(Amounts in thousands)</i> <i>(Unaudited)</i>	Nine Months <u>Ended</u>
Net Sales	\$ <u>2,400</u>	\$ <u>24,400</u>
Earnings before income taxes	\$ 200	\$ 2,500
Provision for income taxes	<u>100</u>	<u>1,000</u>
Earnings from discontinued operations	100	1,500
Gain on sale of discontinued operations, net of provision for income taxes of \$1,200,000	<u>---</u>	<u>4,200</u>
Earnings from discontinued operations	<u>\$ 100</u>	<u>\$ 5,700</u>
Depreciation and amortization expense	\$ <u>149</u>	\$ <u>742</u>

- (I) On October 9, 2003, the Company announced that it is exploring strategic alternatives for its Windows, Doors and Siding Products ("WDS") Segment, including its possible sale. The Company has retained financial advisors to assist in exploring strategic alternatives for the WDS Segment. There can be no assurance that any transaction will result from the exploration process.

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- (J) The Company has three reportable segments: the Residential Building Products Segment; the Air Conditioning and Heating Products Segment; and the Windows, Doors and Siding Products Segment. In the tables below, Other includes corporate related items, intersegment eliminations and certain income and expense items not allocated to reportable segments.

On April 2, 2002, the Company sold the capital stock of Hoover. On November 22, 2002, the Company sold the capital stock of Richwood. The results of Richwood, which were previously part of the Windows, Doors and Siding Products Segment and Hoover, which were previously part of the Other Segment, have been excluded from earnings from continuing operations and classified separately as discontinued operations for all periods presented (see Note H). Accordingly the segment information presented below excludes Richwood and Hoover for all periods.

The Company evaluates segment performance based on operating earnings before allocations of corporate overhead costs. The income statement impact of all purchase accounting adjustments, including goodwill and intangible asset amortization, is included in the operating earnings of the applicable segment. Intersegment net sales and eliminations were not material for any of the periods presented.

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Net sales, operating earnings and pre-tax earnings from continuing operations for the Company's segments for the three months ended October 4, 2003 and September 28, 2002 were as follows:

	Three Months Ended	
	Post- Recapitalization October 4, 2003	Pre- Recapitalization September 28, 2002
	<i>(Amounts in thousands)</i>	
	<i>(Unaudited)</i>	
Net sales:		
Residential building products	\$ 217,544	\$ 182,052
Air conditioning and heating products	181,009	175,958
Windows, doors and siding products	<u>156,549</u>	<u>146,573</u>
Consolidated net sales	<u>\$ 555,102</u>	<u>\$ 504,583</u>
Operating earnings:		
Residential building products	\$ 41,573	\$ 33,155
Air conditioning and heating products *	17,875	15,463
Windows, doors and siding products	<u>24,873</u>	<u>23,651</u>
Subtotal	84,321	72,269
Unallocated:		
Expenses and charges arising from the Recapitalization	---	(1,000)
Re-audit fees and expenses	---	(2,100)
Strategic sourcing expense	(100)	(1,600)
Other, net	<u>(9,701)</u>	<u>(14,628)</u>
Consolidated operating earnings	74,520	52,941
Interest expense	(22,838)	(23,993)
Investment income	<u>318</u>	<u>1,852</u>
Earnings before provision for income taxes	<u>\$ 52,000</u>	<u>\$ 30,800</u>

- * The operating results of the Air Conditioning and Heating Products Segment for the three months ended October 4, 2003 include approximately \$2,300,000 of severance and other costs associated with the closure of certain manufacturing facilities and approximately \$400,000 of expenses associated with the start-up of a new manufacturing facility.

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Depreciation and amortization expense, the non-cash inventory write-off of a portion of allocated purchase price and capital expenditures from continuing operations for the Company's segments for the three months ended October 4, 2003 and September 28, 2002 were as follows:

	Three Months Ended	
	Post- Recapitalization October 4, 2003	Pre- Recapitalization September 28, 2002
	<i>(Amounts in thousands)</i>	
	<i>(Unaudited)</i>	
Non-cash inventory write-off of a portion of allocated purchase price:		
Residential building products	\$ 323	\$ ---
Air conditioning and heating products	---	---
Windows, doors and siding products	---	---
Consolidated inventory non-cash charge	<u>\$ 323</u>	<u>\$ ---</u>
Depreciation and Amortization Expense:		
Residential building products	\$ 3,191	\$ 3,752
Air conditioning and heating products	2,747	3,253
Windows, doors and siding products	3,684	3,507
Other	103	146
Consolidated depreciation and amortization expense	<u>\$ 9,725</u>	<u>\$ 10,658</u>
Capital Expenditures:		
Residential building products	\$ 2,069	\$ 1,645
Air conditioning and heating products	6,337	1,974
Windows, doors and siding products	1,534	2,246
Other	474	---
Consolidated capital expenditures	<u>\$ 10,414</u>	<u>\$ 5,865</u>

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Net sales, operating earnings (loss) and pre-tax earnings (loss) from continuing operations for the Company's segments for the periods presented below were as follows:

	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
	<i>(Amounts in thousands)</i>		
	<i>(Unaudited)</i>		
Net sales:			
Residential building products	\$ 597,005	\$ 16,338	\$ 546,009
Air conditioning and heating products	527,654	8,613	513,937
Windows, doors and siding products	410,147	8,824	391,568
Consolidated net sales	<u>\$ 1,534,806</u>	<u>\$ 33,775</u>	<u>\$ 1,451,514</u>
Operating earnings (loss):			
Residential building products	\$ 100,185	\$ 2,731	\$ 92,493
Air conditioning and heating products *	53,443	(1,258)	52,788
Windows, doors and siding products *	50,136	(255)	58,816
Subtotal	203,764	1,218	204,097
Unallocated:			
Expenses and charges arising from the Recapitalization	---	(87,700)	(6,200)
Re-audit fees and expenses	---	---	(2,100)
1999 equity performance plan incentive	---	---	(4,400)
Strategic sourcing expense	(1,800)	(100)	(1,600)
Other, net	(26,302)	(251)	(37,922)
Consolidated operating earnings (loss)	175,662	(86,833)	151,875
Interest expense	(71,039)	(2,288)	(72,383)
Investment income	1,077	121	5,508
Earnings (loss) before provision (benefit) for income taxes	<u>\$ 105,700</u>	<u>\$ (89,000)</u>	<u>\$ 85,000</u>

- * The operating results of the Air Conditioning and Heating Products Segment for the period from January 10, 2003 to October 4, 2003 include approximately \$3,700,000 of severance and other costs associated with the closure of certain manufacturing facilities and approximately \$1,000,000 of expenses associated with the start-up of a new manufacturing facility. The operating results of the Windows, Doors and Siding Products Segment for the period from January 10, 2003 to October 4, 2003 include approximately \$600,000 of severance and other costs associated with the closure of certain manufacturing facilities and approximately \$1,300,000 of costs and expenses for expanded distribution including new customers.

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Depreciation and amortization expense, the non-cash inventory write-off of a portion of allocated purchase price and capital expenditures from continuing operations for the Company's segments for the periods presented below were as follows:

	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
	<i>(Amounts in thousands)</i>		
	<i>(Unaudited)</i>		
Non-cash inventory write-off of a portion of allocated purchase price:			
Residential building products	\$ 4,653	\$ ---	\$ ---
Air conditioning and heating products	645	---	---
Windows, doors and siding products	<u>1,387</u>	<u>---</u>	<u>---</u>
Consolidated inventory non-cash charge	<u>\$ 6,685</u>	<u>\$ ---</u>	<u>\$ ---</u>
Depreciation and Amortization Expense:			
Residential building products	\$ 9,444	\$ 348	\$ 11,809
Air conditioning and heating products	7,847	290	9,752
Windows, doors and siding products	10,669	309	10,599
Other	<u>402</u>	<u>21</u>	<u>445</u>
Consolidated depreciation and amortization expense	<u>\$ 28,362</u>	<u>\$ 968</u>	<u>\$ 32,605</u>
Capital Expenditures:			
Residential building products	\$ 6,296	\$ 91	\$ 5,284
Air conditioning and heating products	9,101	116	4,671
Windows, doors and siding products	5,920	349	5,952
Other	<u>729</u>	<u>---</u>	<u>102</u>
Consolidated capital expenditures	<u>\$ 22,046</u>	<u>\$ 556</u>	<u>\$ 16,009</u>

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- (K) The Company provides income taxes on an interim basis based upon the estimated annual effective income tax rate. The following reconciles the federal statutory income tax rate to the estimated effective tax rate of approximately 40.9%, 27.1% and 42.0% for the periods presented:

	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
Income tax provision (benefit) at the federal statutory rate	35.0%	(35.0)%	35.0%
Net change from federal statutory rate:			
State income tax provision, net of federal income tax effect	1.6	(0.1)	1.8
Change in tax reserves, net	---	---	0.5
Tax effect resulting from foreign activities	2.9	---	1.5
Tax effect of the Recapitalization	---	7.8	---
Non-deductible expenses	0.6	---	2.8
Other, net	<u>0.8</u>	<u>0.2</u>	<u>0.4</u>
Income tax provision (benefit) at estimated effective rate	<u>40.9%</u>	<u>(27.1)%</u>	<u>42.0%</u>

- (L) The Company accounts for stock options granted to employees using the intrinsic value method pursuant to the provisions of APB Opinion No. 25, under which no compensation cost has been recognized since the options were granted with exercise prices equal to the fair market value of the common stock at the date of grant. Accordingly, the table below presents pro forma information as if the fair value method of SFAS No. 123 had been applied for each of those periods. The Company estimates the fair value of each option grant as of the date of the grant using the Black-Scholes option-pricing model based upon the indicated assumptions.

Upon completion of the Recapitalization on January 9, 2003, all existing options became fully vested and all options for shares of common stock and special common stock of Nortek Holdings, that were rolled-over by the Management Investors, were exchanged for stock options to purchase an equal number of shares of Class A Common Stock of Nortek Holdings at the same price per share. Accordingly, the period from January 1, 2003 to January 9, 2003 in the table that follows includes the pro forma employee stock compensation expense, net of tax, associated with the accelerated vesting of all of the existing unvested options in connection with the Recapitalization.

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The pro forma employee stock compensation expense, net of tax, for the period from January 10, 2003 to October 4, 2003 in the table that follows represents the pro forma impact of approximately 443,000 Class A stock options issued by Nortek Holdings during the period in accordance with the assumptions indicated therein. Approximately 847,000 of Class B stock options issued by Nortek Holdings during the period have not been included in the calculation as the vesting is performance-based and it is uncertain when, if ever, these options will vest.

	For the Three Months Ended	
	Post-Recapitalization	Pre-Recapitalization
	<u>October 4, 2003</u>	<u>September 28, 2002</u>
	<i>(Amounts in thousands except percentages)</i>	
	<i>(Unaudited)</i>	
Pro forma had SFAS No. 123 been applied:		
Net earnings from continuing operations, as reported	\$ 30,100	\$ 16,600
Pro forma employee stock compensation, net of tax	<u>(200)</u>	<u>(400)</u>
Pro forma net earnings from continuing operations	<u>\$ 29,900</u>	<u>\$ 16,200</u>
Net earnings, as reported	\$ 30,100	\$ 16,700
Pro forma employee stock compensation, net of tax	<u>(200)</u>	<u>(400)</u>
Pro forma net earnings	<u>\$ 29,900</u>	<u>\$ 16,300</u>
Pro forma weighted average fair value of options as of the grant date	<u>\$ 5.73</u>	N/A
Assumptions for options entered into during the period:		
Risk-free interest rate	Between 2.6% and 2.85%	N/A
Expected life	5 years	N/A
Expected volatility	0%	N/A
Expected dividend yield	0%	N/A

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	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
	<i>(Amounts in thousands except percentages)</i>		
	<i>(Unaudited)</i>		
Pro forma had SFAS No. 123 been applied:			
Net earnings (loss) from continuing operations, as reported	\$ 62,500	\$ (64,900)	\$ 49,300
Pro forma employee stock compensation, net of tax	<u>(500)</u>	<u>(600)</u>	<u>(1,000)</u>
Pro forma net earnings (loss) from continuing operations	<u>\$ 62,000</u>	<u>\$ (65,500)</u>	<u>\$ 48,300</u>
Net earnings (loss), as reported	\$ 62,500	\$ (64,900)	\$ 55,000
Pro forma employee stock compensation, net of tax	<u>(500)</u>	<u>(600)</u>	<u>(1,000)</u>
Pro forma net earnings (loss)	<u>\$ 62,000</u>	<u>\$ (65,500)</u>	<u>\$ 54,000</u>
Pro forma weighted average fair value of options as of the grant date	<u>\$ 6.79</u>	N/A	<u>\$ 10.67</u>
Assumptions for options entered into during the period:			
Risk-free interest rate	Between 2.6% and 3.23%	N/A	Between 4.29% and 4.54%
Expected life	5 years	N/A	5 years
Expected volatility	0%	N/A	38%
Expected dividend yield	0%	N/A	0%

- (M) The Company and its subsidiaries have guaranteed certain obligations of various third parties that aggregate approximately \$34,900,000 at October 4, 2003. Approximately \$28,200,000 relates to Ply Gem's guarantee of rental payments through June 30, 2016 under a facility leased by SNE Enterprises, Inc. ("SNE"), which was sold on September 21, 2001. The buyer of SNE has provided certain indemnifications and other rights to Ply Gem for any payments that it might be required to make pursuant to this guarantee. Should the buyer of SNE cease making payments then Ply Gem may be required to make payments on its guarantee. Approximately \$2,400,000 relates to Ply Gem's guarantee of lease payments through approximately March 18, 2008 for truck leases entered into by SNE. Should the buyer of SNE cease making payments on this lease, Ply Gem may be required to make payments on its guarantee. Approximately \$4,300,000 relates to guarantees of the remaining principal and interest balances of mortgages of a third-party on certain buildings, one of which houses the Company's corporate headquarters. These guarantees expire on December 31, 2020 and are payable in the event of non-payment of the mortgage. These guarantees are collateralized by the buildings to which the mortgages relate and any liability to the Company would first be reduced by the

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Company's pro-rata share of proceeds received on the sale of the buildings. The Company does not anticipate incurring any loss under these guarantees and accordingly has not recorded any liabilities at October 4, 2003 in the accompanying unaudited condensed consolidated balance sheet in accordance with accounting principles generally accepted in the United States.

The Company has indemnified third parties for certain matters in a number of transactions involving dispositions of former subsidiaries. The Company has recorded liabilities related to these indemnifications of approximately \$22,700,000 at October 4, 2003.

The Company sells a number of products and offers a number of warranties including in some instances, extended warranties. The specific terms and conditions of these warranties vary depending on the product sold and country in which the product is sold. The Company estimates the costs that may be incurred under its warranties, with the exception of extended warranties, and records a liability for such costs at the time of sale. Proceeds received from extended warranties are amortized over the life of the warranty and reviewed to ensure that the liability recorded is equal to or greater than the estimated future costs. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, cost per claim and new product introduction. The Company periodically assesses the adequacy of its recorded warranty claims and adjusts the amounts as necessary. Changes in the Company's combined short-term and long-term warranty liabilities during the periods presented are as follows:

	For the Three Months Ended	
	<u>Post-Recapitalization</u>	<u>Pre-Recapitalization</u>
	<u>October 4, 2003</u>	<u>September 28, 2002</u>
	<i>(Amounts in thousands)</i>	
	<i>(Unaudited)</i>	
Balance, beginning of period	\$ 38,161	\$ 36,674
Warranties provided during period	3,964	6,607
Settlements made during period	(3,164)	(4,473)
Changes in liability estimate, including acquisitions	(83)	(59)
Balance, end of period	<u>\$ 38,878</u>	<u>\$ 38,749</u>

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	For the Periods		
	<u>Post- Recapitalization</u>	<u>Pre-Recapitalization</u>	
	<u>Jan. 10, 2003 - Oct. 4, 2003</u>	<u>Jan. 1, 2003 - Jan. 9, 2003</u>	<u>Jan. 1, 2002 - Sept. 28, 2002</u>
	<i>(Amounts in thousands)</i>		
	<i>(Unaudited)</i>		
Balance, beginning of period	\$ 35,442	\$ 35,386	\$ 33,447
Warranties provided during period	15,224	325	16,996
Settlements made during period	(11,937)	(302)	(12,163)
Changes in liability estimate, including acquisitions	<u>149</u>	<u>33</u>	<u>469</u>
Balance, end of period	<u>\$ 38,878</u>	<u>\$ 35,442</u>	<u>\$ 38,749</u>

The Company is subject to other contingencies, including legal proceedings and claims arising out of its businesses that cover a wide range of matters, including, among others, environmental matters, contract and employment claims, product liability, warranty and modification, adjustment or replacement of component parts of units sold. Product liability, environmental and other legal proceedings also include matters with respect to businesses previously owned. The Company has used various substances in its products and manufacturing operations which have been or may be deemed to be hazardous or dangerous, and the extent of its potential liability, if any, under environmental, product liability and workers' compensation statutes, rules, regulations and case law is unclear. Further, due to the lack of adequate information and the potential impact of present regulations and any future regulations, there are certain circumstances in which no range of potential exposure may be reasonably estimated.

A former subsidiary of the Company is a defendant in a number of lawsuits alleging damage caused by alleged defects in certain pressure treated wood products. A subsidiary of the Company has indemnified the buyer of the former subsidiary for all known liabilities and future claims relating to such matters and retained the rights to all potential reimbursements related to insurance coverage. Many of the lawsuits have been resolved by dismissal or settlement with amounts being paid out of insurance proceeds or other third party recoveries. The Company and the former subsidiary continue to vigorously defend the remaining suits. Certain defense and indemnity costs are being paid out of insurance proceeds and proceeds from a settlement with suppliers of material used in the production of the treated wood products. The Company and the former subsidiary have engaged in coverage litigation with certain insurers and have settled coverage claims with several of the insurers. The Company believes that the remaining coverage disputes will be resolved on a satisfactory basis and additional coverage will be available. In reaching this belief, the Company analyzed insurance coverage and the status of the coverage litigation, considered the history of settlements with primary and excess insurers and consulted with counsel. The Company has recorded liabilities of approximately \$6,910,000 and \$8,440,000 at October 4, 2003 and December 31, 2002, respectively, for the estimated costs to resolve these outstanding matters. The Company

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has also recorded receivables at October 4, 2003 and December 31, 2002 of approximately \$4,286,000 and \$5,011,000, respectively, for the estimated recoveries which are deemed probable of collection related primarily to insurance litigation matters discussed above.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated financial position or results of operations of the Company. It is possible, however, that future results of operations for any particular future period could be materially affected by changes in our assumptions or strategies related to these contingencies or changes out of the Company's control.

- (N) The Company records restructuring costs primarily in connection with operations acquired or facility closings which management plans to eliminate in order to improve future operating results of the Company. During the fourth quarter of 2002, the Company provided approximately \$1,000,000 for liabilities related to restructuring and closing costs of certain subsidiaries within its Residential Building Products Segment. During the period from January 10, 2003 to October 4, 2003, the Company recognized restructuring charges primarily associated with plant closings in the Air Conditioning and Heating Products and Windows, Doors and Siding Products Segments.

Within the Air Conditioning and Heating Products Segment, the Company, in the second quarter of 2003, initiated restructuring activities related to the closure of two facilities in St. Louis, Missouri, in order to relocate the operations to other facilities by the end of the first quarter of 2004. The restructuring is expected to result in the termination of approximately 500 employees at the two facilities which will be closed. Approximately 48 employees have been terminated to date. The facilities currently support manufacturing, warehousing and distribution activities of the segment's residential HVAC products. During the third quarter and first nine months of 2003, the Company provided approximately \$2,300,000 and \$3,700,000, respectively, in cost of goods sold related to liabilities incurred as a result of the restructuring and expects to provide an additional estimated \$4,800,000 of costs through early 2004. The facilities to be closed are owned by the Company and are expected to be sold in 2004.

Within the Windows, Doors and Siding Products Segment, the Company incurred approximately \$600,000 in the first nine months of 2003 of severance and other costs associated with the closure of certain manufacturing facilities and expects to incur additional future restructuring costs of less than \$100,000 related to restructuring plans which began to be implemented in the first quarter of 2003. The facilities to be closed are owned by the Company and are expected to be sold in 2004. As of October 4, 2003, these facilities have been classified as assets held for sale within other current assets in the accompanying condensed consolidated balance sheet.

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The following table sets forth restructuring activity in the accompanying unaudited condensed consolidated statement of operations for the periods presented. These costs are included in cost of goods sold and selling, general and administrative expenses in the accompanying unaudited condensed consolidated statement of operations of the Company.

	<u>Employee Separation Expenses</u>	<u>Other</u>	<u>Total Restructuring Costs</u>
	<i>(Amounts in thousands)</i> <i>(Unaudited)</i>		
Balance at December 31, 2001	\$ 710	\$ 159	\$ 869
Payments and asset write downs	(200)	---	(200)
Balance at March 30, 2002	510	159	669
Other adjustments	(214)	---	(214)
Balance at June 29, 2002	296	159	455
Other adjustments	--	---	---
Balance at September 28, 2002	<u>\$ 296</u>	<u>\$ 159</u>	<u>\$ 455</u>
 Balance at December 31, 2002	 \$ 820	 \$ 645	 \$ 1,465
Other adjustments	(90)	(110)	(200)
Balance at January 9, 2003	730	535	1,265
Provision	427	50	477
Payments and asset write downs	(45)	(238)	(283)
Balance at April 5, 2003	1,112	347	1,459
Provision	1,251	262	1,513
Payments and asset write downs	(428)	(162)	(590)
Balance at July 5, 2003	1,935	447	2,382
Provision	1,942	409	2,351
Payments and asset write downs	(451)	(542)	(993)
Other adjustments	(93)	---	(93)
Balance at October 4, 2003	<u>\$ 3,333</u>	<u>\$ 314</u>	<u>\$ 3,647</u>

Employee separation expenses are comprised of severance, vacation, outplacement and retention bonus payments. Other restructuring costs include expenses associated with terminating other contractual arrangements, costs to prepare facilities for closure, costs to move equipment and products to other facilities and write-offs related to equipment sales and disposals attributable to a restructuring which occurred prior to December 31, 2002.

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The Company is a diversified manufacturer of residential and commercial building products, operating within three principal segments: the Residential Building Products Segment, the Air Conditioning and Heating Products Segment and the Windows, Doors and Siding Products Segment. In the results of operations presented below, Other includes corporate related items, intersegment eliminations and certain income and expense not allocated to reportable segments. Through its principal segments, the Company manufactures and sells, primarily in the United States, Canada and Europe, a wide variety of products for the residential and commercial construction, manufactured housing and the do-it-yourself ("DIY") and professional remodeling and renovation markets. (As used in this report, the terms "Company" and "Nortek" refer to Nortek, Inc., together with its subsidiaries, unless the context indicates otherwise. Such terms as "Company" and "Nortek" are used for convenience only and are not intended as a precise description of any of the separate corporations, each of which manages its own affairs.)

The Residential Building Products Segment manufactures and distributes built-in products primarily for the residential new construction and DIY and professional remodeling and renovation markets. The principal products sold by the segment include kitchen range hoods, built-in exhaust fans (such as bath fans and fan, heater and light combination units) and indoor air quality products. The Air Conditioning and Heating Products Segment manufactures and sells heating, ventilating and air conditioning systems ("HVAC") for custom-designed commercial applications and for residential, light commercial and manufactured structures. The Windows, Doors and Siding Products Segment, principally manufactures and distributes: (i) vinyl siding, skirting, soffit and accessories, (ii) vinyl and aluminum clad windows, (iii) vinyl patio and steel entry doors and sunrooms, (iv) vinyl fencing, railing and decking, (v) composite decking and railing and (vi) aluminum trim coil, soffit and accessories for use in the residential construction and DIY and professional renovation markets.

On November 20, 2002, the Company reorganized into a holding company structure and each outstanding share of capital stock of the Company was converted into an identical share of capital stock of Nortek Holdings, Inc. ("Nortek Holdings"), a Delaware corporation formed in 2002, with Nortek Holdings becoming the successor company and the Company becoming a wholly-owned subsidiary of Nortek Holdings (the "Nortek Holdings Reorganization"). On January 9, 2003, Nortek Holdings, the parent company of Nortek, was acquired by certain affiliates and designees of Kelso & Company L.P. ("Kelso") and certain members of the Company's management (the "Management Investors") in accordance with the Agreement and Plan of Recapitalization by and among Nortek, Inc., Nortek Holdings, Inc. and K Holdings, Inc. ("K Holdings") dated as of June 20, 2002, as amended, (the "Recapitalization Agreement") in a transaction valued at approximately \$1.6 billion, including all of the Company's indebtedness (the "Recapitalization"). (See Liquidity and Capital Resources and Note B of the Notes to the unaudited condensed consolidated financial statements (the "Unaudited Financial Statements") included elsewhere herein.)

Beginning on January 9, 2003, the Company and Nortek Holdings accounted for the Recapitalization as a purchase in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS No. 141"), which resulted in a new valuation for the assets and liabilities of Nortek Holdings and its subsidiaries based upon fair values as of the date of the Recapitalization. As allowed under SEC Staff Accounting Bulletin No. 54, "Push Down Basis of Accounting Required in Certain Limited Circumstances", the Company has reflected all

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applicable purchase accounting adjustments recorded by Nortek Holdings in the Company's condensed consolidated financial statements for all SEC filings covering periods subsequent to the Recapitalization ("Push Down Accounting"). Push Down Accounting requires the Company to establish a new basis for its assets and liabilities based on the amount paid for its ownership at January 9, 2003. Accordingly, Nortek Holdings' ownership basis (including the fair value of options rolled over by the Management Investors) is reflected in Nortek's condensed consolidated financial statements beginning upon completion of the Recapitalization. In order to apply Push Down Accounting, Nortek Holdings' purchase price of approximately \$468,737,000 was allocated to the assets and liabilities based on their relative fair values and approximately \$440,837,000 was reflected in the Company's Stockholder's Investment as the value of Nortek Holdings' ownership in the Company upon completion of the Recapitalization. Immediately prior to the Recapitalization, the Company's Stockholder's Investment was approximately \$156,702,000. Purchase price allocations are subject to refinement until all pertinent information is obtained. As of January 10, 2003, the Company preliminarily allocated the excess purchase price over the net assets acquired in the Recapitalization based on its estimates of the fair value of assets and liabilities as follows:

	<u>Excess purchase price of the Recapitalization allocated to</u>
Inventories	\$ 13,234,000
Property, plant and equipment	102,474,000
Intangible assets	72,953,000
Goodwill	232,372,000
Indebtedness	(33,776,000)
Prepaid and deferred income taxes	(51,611,000)
Pension and post retirement health care benefits	(24,044,000)
Other	<u>433,000</u>
Total	<u>\$ 312,035,000</u>

During the period from January 10, 2003 to October 4, 2003, the Company reflected approximately \$6,000,000 of excess purchase price allocated to inventory as a non-cash charge to cost of goods sold. There was no additional non-cash charge to cost of goods sold in the three months ended October 4, 2003 arising from excess purchase price from the Recapitalization allocated to inventory. During the three months ended October 4, 2003 and the period from January 10, 2003 to October 4, 2003, the Company reflected approximately \$3,400,000 and \$9,700,000, respectively, of lower depreciation expense in cost of sales, approximately \$1,600,000 and \$4,600,000, respectively, of additional amortization expense of intangible assets and approximately \$1,500,000 and \$4,300,000, respectively, of lower interest expense from the amortization of premium allocated to indebtedness as compared to the Company's historical basis of accounting prior to the Recapitalization.

The Company has estimated the fair value of its assets and liabilities, including intangible assets and property, plant and equipment, as of the Recapitalization, utilizing information available at the time that the Company's Unaudited Financial Statements were prepared and these estimates are subject to refinement until all pertinent information has been obtained. The Company is in the process of obtaining outside third party appraisals of its intangible assets and property, plant and equipment.

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The impact of these fair value estimates has been reflected in the Company's condensed consolidated statement of operations for the periods ended October 4, 2003. Should the intangible asset or property, plant and equipment appraisals result in differences in the average amortizable or depreciable lives of these assets or in the fair value amount of the estimates, the following estimated changes in annual operating earnings would occur:

	Increase (decrease) in operating earnings		
	Property, Plant and Equipment	Intangible Assets	Total
If lives are one year greater	\$ 1,800,000	\$ 800,000	\$ 2,600,000
If lives are one year less	(2,100,000)	(900,000)	(3,000,000)
If fair value is \$10,000,000 greater	(800,000)	(700,000)	(1,500,000)
If fair value is \$10,000,000 less	800,000	700,000	1,500,000

The combined periods from January 1, 2003 to January 9, 2003 and from January 10, 2003 to October 4, 2003 contain 277 days while the first nine months of 2002 contained 271 days. Accordingly, operating results for 2003 include approximately \$1,000,000 of additional interest expense as compared to 2002 since the Company accrues interest expense based on the number of days contained in each reporting period.

On January 17, 2003, the Company acquired Elan Home Systems L.L.C. ("Elan"). On July 11, 2003, the Company acquired SpeakerCraft, Inc. ("SPC"). The acquisitions of Elan and SPC have been accounted for under the purchase method of accounting. Accordingly, the results of Elan and SPC are included in the Company's consolidated results since the date of their acquisitions. (See Note E of the Notes to the Unaudited Financial Statements included elsewhere herein.)

On April 2, 2002, the Company's wholly-owned subsidiary, Ply Gem Industries, Inc. ("Ply Gem") sold the capital stock of its subsidiary Hoover Treated Wood Products, Inc. ("Hoover") and on November 22, 2002, Ply Gem sold the capital stock of its subsidiary Richwood Building Products, Inc. ("Richwood"). The results of Richwood, which were previously part of the Windows, Doors and Siding Products Segment and Hoover, which were previously part of the Other Segment, have been excluded from earnings from continuing operations and classified separately as discontinued operations for all periods presented. Accordingly the segment information that follows excludes Richwood and Hoover for all periods. (See Note H of the Notes to the Unaudited Financial Statements included elsewhere herein.)

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Unaudited Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain of the Company's accounting policies require the application of judgment in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company periodically evaluates the judgments and estimates used for its critical accounting policies to ensure that such judgments and estimates are reasonable for its interim and year-end reporting requirements. These judgments and estimates are based on the Company's historical

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experience, current trends and information available from other sources, as appropriate. If different conditions result from those assumptions used in the Company's judgments, the results could be materially different from the Company's estimates. The Company's critical accounting policies include:

- Revenue Recognition and Related Expenses
- Inventory Valuation
- Prepaid Income Tax Assets and Deferred Tax Liabilities
- Goodwill
- Pensions and Post Retirement Health Benefits
- Insurance Liabilities
- Contingencies

Further detail regarding the Company's critical accounting policies can be found in the consolidated financial statements and the notes included in the Company's latest annual report on Form 10-K as filed with the Securities and Exchange Commission ("SEC").

The "Results of Operations" and "Liquidity and Capital Resources" sections which follow contain various tables that are intended to assist the reader in reconciling current results with the prior period.

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Results of Operations

The tables that follow present the unaudited net sales from continuing operations, operating earnings from continuing operations and depreciation and amortization expense from continuing operations for the Company's principal segments for the third quarter ended October 4, 2003 and September 28, 2002, the dollar amount and percentage change of such results as compared to the prior comparable period and the percentage to net sales of operating earnings and depreciation and amortization expense for the third quarter ended October 4, 2003 and September 28, 2002:

	Third Quarter Ended		Change in Earnings in the	
	Post- Recapitalization October 4, 2003	Pre- Recapitalization September 28, 2002	Third Quarter 2003 as Compared to 2002	
			\$	%
	<i>(Dollar amounts in thousands)</i>			
Net sales:				
Residential Building Products	\$ 217,544	\$ 182,052	\$ 35,492	19.5%
Air Conditioning and Heating Products	181,009	175,958	5,051	2.9
Windows, Doors and Siding Products	156,549	146,573	9,976	6.8
Consolidated net sales	<u>\$ 555,102</u>	<u>\$ 504,583</u>	<u>\$ 50,519</u>	10.0%
Operating earnings:				
Residential Building Products **	\$41,573	\$ 33,155	\$ 8,418	25.4%
Air Conditioning and Heating Products	17,875	15,463	2,412	15.6
Windows, Doors and Siding Products	24,873	23,651	1,222	5.2
Subtotal	<u>\$ 84,321</u>	<u>\$ 72,269</u>	<u>\$ 12,052</u>	16.7
Unallocated:				
Expenses and charges arising from the Recapitalization	---	(1,000)	1,000	*
Re-audit fees and expenses	---	(2,100)	2,100	*
Strategic sourcing expense	(100)	(1,600)	1,500	93.8
Other, net	(9,701)	(14,628)	4,927	33.7
Consolidated operating earnings	<u>\$ 74,520</u>	<u>\$ 52,941</u>	<u>\$ 21,579</u>	40.8%
Depreciation and amortization expense:				
Residential Building Products	\$ 3,191	\$ 3,752	\$ (561)	(15.0)%
Air Conditioning and Heating Products	2,747	3,253	(506)	(15.6)
Windows, Doors and Siding Products	3,684	3,507	177	5.0
Other	103	146	(43)	(29.5)
	<u>\$ 9,725</u>	<u>\$ 10,658</u>	<u>\$ (933)</u>	(8.8)%
Operating earnings margin:				
Residential Building Products	19.1%	18.2%		
Air Conditioning and Heating Products	9.9	8.8		
Windows, Doors and Siding Products	15.9	16.1		
Consolidated	13.4%	10.5%		
Depreciation and amortization expense as a % of net sales:				
Residential Building Products	1.5%	2.1%		
Air Conditioning and Heating Products	1.5	1.8		
Windows, Doors and Siding Products	2.4	2.4		
Consolidated	1.8%	2.1%		

* not meaningful

** During the three months ended October 4, 2003, the Company reflected approximately \$323,000 of excess purchase price allocated to inventory as a non-cash charge to cost of products sold in the Residential Building Products Segment.

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The combined first nine months of 2003 pre- and post-Recapitalization periods have been compared to the first nine months of 2002 for purposes of management's discussion and analysis of the results of operations. Any references, below, to the first nine months of 2003 shall refer to the combined periods. Material fluctuations in operations resulting from the effect of purchase accounting have been highlighted.

	Pre-Recapitalization January 1, 2003 - January 9, 2003	Post-Recapitalization January 10, 2003 October 4, 2003	Combined Nine Months Ended October 4, 2003
	<i>(Dollar amounts in thousands)</i>		
Net sales:			
Residential Building Products	\$ 16,338	\$ 597,005	\$ 613,343
Air Conditioning and Heating Products	8,613	527,654	536,267
Windows, Doors and Siding Products	<u>8,824</u>	<u>410,147</u>	<u>418,971</u>
Consolidated net sales	<u>\$ 33,775</u>	<u>\$ 1,534,806</u>	<u>\$ 1,568,581</u>
Operating earnings (loss) *:			
Residential Building Products	\$ 2,731	\$ 100,185	\$ 102,916
Air Conditioning and Heating Products	(1,258)	53,443	52,185
Windows, Doors and Siding Products	<u>(255)</u>	<u>50,136</u>	<u>49,881</u>
Subtotal	\$ 1,218	\$ 203,764	\$ 204,982
Unallocated:			
Expenses and charges arising from the Recapitalization	(87,700)	---	(87,700)
Strategic sourcing expense	(100)	(1,800)	(1,900)
Other, net	<u>(251)</u>	<u>(26,302)</u>	<u>(26,553)</u>
Consolidated operating earnings (loss)	<u>\$ (86,833)</u>	<u>\$ 175,662</u>	<u>\$ 88,829</u>
Depreciation and amortization expense:			
Residential Building Products	\$ 348	\$ 9,444	\$ 9,792
Air Conditioning and Heating Products	290	7,847	8,137
Windows, Doors and Siding Products	309	10,669	10,978
Other	<u>21</u>	<u>402</u>	<u>423</u>
	<u>\$ 968</u>	<u>\$ 28,362</u>	<u>\$ 29,330</u>
Operating earnings (loss) margin:			
Residential Building Products	16.7%	16.8%	16.8%
Air Conditioning and Heating Products	(14.6)	10.1	9.7
Windows, Doors and Siding Products	(2.9)	12.2	11.9
Consolidated	(257.1)%	11.4%	5.7%
Depreciation and amortization expense as a % of net sales:			
Residential Building Products	2.1%	1.6%	1.6%
Air Conditioning and Heating Products	3.4	1.5	1.5
Windows, Doors and Siding Products	3.5	2.6	2.6
Consolidated	2.9%	1.8%	1.9%

* During the period from January 10, 2003 to October 4, 2003, the Company reflected approximately \$6,685,000 of excess purchase price allocated to inventory as a non-cash charge to cost of products sold. Approximately \$4,653,000 was allocated to the Residential Building Products Segment, approximately \$645,000 was allocated to the Air Conditioning and Heating Products Segment and approximately \$1,387,000 was allocated to the Windows, Doors and Siding Products Segment.

The tables that follow present the unaudited net sales from continuing operations, operating earnings from continuing operations and depreciation and amortization expense from continuing operations for

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the Company's principal segments for the combined period ended October 4, 2003 and the nine months ended September 28, 2002, the dollar amount and percentage change of such results as compared to the prior comparable period and the percentage to net sales of operating earnings and depreciation and amortization expense for the combined period ended October 4, 2003 and the nine months ended September 28, 2002:

	Nine Months Ended		Change in Earnings in the	
	October 4,	September 28,	First Nine Months 2003	
	2003 (1)	2002	as Compared to 2002	
			\$	%
	<i>(Dollar amounts in thousands)</i>			
Net sales:				
Residential Building Products	\$ 613,343	\$ 546,009	\$ 67,334	12.3%
Air Conditioning and Heating Products	536,267	513,937	22,330	4.3
Windows, Doors and Siding Products	418,971	391,568	27,403	7.0
Consolidated net sales	<u>\$ 1,568,581</u>	<u>\$ 1,451,514</u>	<u>\$ 117,067</u>	8.1%
Operating earnings:				
Residential Building Products	\$ 102,916	\$ 92,493	\$ 10,423	11.3%
Air Conditioning and Heating Products	52,185	52,788	(603)	(1.1)
Windows, Doors and Siding Products	49,881	58,816	(8,935)	(15.2)
Subtotal	\$ 204,982	\$ 204,097	\$ 885	0.4
Unallocated:				
Expenses and charges arising from the				
Recapitalization	(87,700)	(6,200)	(81,500)	*
Re-audit fees and expenses	---	(2,100)	2,100	100.0
1999 equity incentive plan	---	(4,400)	4,400	100.0
Strategic sourcing expense	(1,900)	(1,600)	(300)	(18.8)
Other, net	(26,553)	(37,922)	11,369	30.0
Consolidated operating earnings	<u>\$ 88,829</u>	<u>\$ 151,875</u>	<u>\$ (63,046)</u>	(41.5)%
Depreciation and amortization expense:				
Residential Building Products	\$ 9,792	\$ 11,809	\$ (2,017)	(17.1)%
Air Conditioning and Heating Products	8,137	9,752	(1,615)	(16.6)
Windows, Doors and Siding Products	10,978	10,599	379	3.6
Other	423	445	(22)	(4.9)
	<u>\$ 29,330</u>	<u>\$ 32,605</u>	<u>\$ (3,275)</u>	(10.0)%
Operating earnings margin:				
Residential Building Products	16.8%	16.9%		
Air Conditioning and Heating Products	9.7	10.3		
Windows, Doors and Siding Products	11.9	15.0		
Consolidated	5.7%	10.5%		
Depreciation and amortization expense as a % of net sales:				
Residential Building Products	1.6%	2.2%		
Air Conditioning and Heating Products	1.5	1.9		
Windows, Doors and Siding Products	2.6	2.7		
Consolidated	1.9%	2.2%		

(1) The nine month period ended October 4, 2003 represents the combined pre- and post-Recapitalization periods of January 1, 2003 through January 9, 2003 and January 10, 2003 through October 4, 2003, respectively.

* not meaningful

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The tables that follow set forth, for the periods presented, (a) certain unaudited consolidated operating results, (b) the change in the amount and the percentage change of such results as compared to the prior comparable period, (c) the percentage which such results bear to net sales, and (d) the change of such percentages as compared to the prior comparable period. The results of operations for the third quarter ended October 4, 2003 are not necessarily indicative of the results of operations to be expected for any other interim period or the full year.

	<u>Third Quarter Ended</u>		<u>Change in</u>	
	<u>Post-Recapitalization</u>	<u>Pre-Recapitalization</u>	<u>Third Quarter 2003</u>	
	<u>October 4,</u>	<u>September 28,</u>	<u>as Compared to 2002</u>	
	<u>2003</u>	<u>2002</u>	<u>\$</u>	<u>%</u>
	<i>(Dollar amounts in millions)</i>			
Net sales	\$ 555.1	\$ 504.6	\$50.5	10.0%
Cost of products sold	393.1	365.7	(27.4)	(7.5)
Selling, general and administrative expense	84.4	83.4	(1.0)	(1.2)
Amortization of intangible assets	3.1	1.5	(1.6)	(106.7)
Expenses and charges arising from the				
Recapitalization	---	1.0	1.0	100.0
Operating earnings	74.5	53.0	21.5	40.6
Interest expense	(22.8)	(24.0)	1.2	5.0
Investment income	.3	1.8	(1.5)	(83.3)
Earnings from continuing operations before				
provision for income taxes	52.0	30.8	21.2	68.8
Provision for income taxes	21.9	14.2	(7.7)	(54.2)
Earnings from continuing operations	30.1	16.6	13.5	81.3
Earnings from discontinued operations	---	.1	(.1)	(100.0)
Net earnings	<u>\$ 30.1</u>	<u>\$ 16.7</u>	<u>\$ 13.4</u>	<u>80.2%</u>

	<u>Percentage of Net Sales</u>		<u>Change in</u>	
	<u>Third Quarter Ended</u>		<u>Percentage</u>	
	<u>Post-Recapitalization</u>	<u>Pre-Recapitalization</u>	<u>for the Third</u>	
	<u>October 4,</u>	<u>September 28,</u>	<u>Quarter 2003</u>	
	<u>2003</u>	<u>2002</u>	<u>as Compared to 2002</u>	
Net sales	100.0%	100.0%	---	---
Cost of products sold	70.8	72.5	1.7	
Selling, general and administrative expense	15.2	16.5	1.3	
Amortization of intangible assets	.6	.3	(.3)	
Expenses and charges arising from the				
Recapitalization	---	.2	.2	
Operating earnings	13.4	10.5	2.9	
Interest expense	(4.1)	(4.8)	.7	
Investment income	.1	.4	(.3)	
Earnings from continuing operations before				
provision for income taxes	9.4	6.1	3.3	
Provision for income taxes	4.0	2.8	(1.2)	
Earnings from continuing operations	5.4	3.3	2.1	
Earnings from discontinued operations	---	*	*	
Net earnings	<u>5.4 %</u>	<u>3.3%</u>	<u>2.1%</u>	

* not meaningful

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The combined first nine months of 2003 pre- and post-Recapitalization periods have been compared to the first nine months of 2002 for purposes of management's discussion and analysis of the results of operations. Any references, below, to the first nine months of 2003 shall refer to the combined periods. Material fluctuations in operations resulting from the effect of purchase accounting have been highlighted.

	Pre- Recapitalization Jan. 1, 2003 - <u>Jan. 9, 2003</u>	Post- Recapitalization Jan. 10, 2003 - <u>October 4, 2003</u>	Combined Nine Months Ended <u>October 4, 2003</u>
	<i>(Dollar amounts in millions)</i>		
Net sales	\$ 33.8	\$ 1,534.8	\$ 1,568.6
Cost of products sold	26.3	1,107.2	1,133.5
Selling, general and administrative expenses, net	6.5	243.0	249.5
Amortization of intangible assets	.1	9.0	9.1
Expenses and charges arising from the Recapitalization	<u>87.7</u>	<u>---</u>	<u>87.7</u>
Operating earnings (loss)	(86.8)	175.6	88.8
Interest expense	(2.3)	(71.0)	(73.3)
Investment income	<u>.1</u>	<u>1.1</u>	<u>1.2</u>
Earnings (loss) before provision (benefit) for income taxes	(89.0)	105.7	16.7
Provision (benefit) for income taxes	<u>(24.1)</u>	<u>43.2</u>	<u>19.1</u>
Net earnings (loss)	<u>\$ (64.9)</u>	<u>\$ 62.5</u>	<u>\$ (2.4)</u>

	Percentage of Net Sales		
	Pre- Recapitalization Jan. 1, 2003 - <u>Jan. 9, 2003</u>	Post- Recapitalization Jan. 10, 2003 - <u>October 4, 2003</u>	Combined Nine Months Ended <u>October 4, 2003</u>
Net sales	100.0%	100.0%	100.0%
Cost of products sold	77.8	72.1	72.3
Selling, general and administrative expenses, net	19.2	15.9	15.9
Amortization of intangible assets	.3	.6	.6
Expenses and charges arising from the Recapitalization	<u>259.5</u>	<u>---</u>	<u>5.6</u>
Operating earnings (loss)	(256.8)	11.4	5.6
Interest expense	(6.8)	(4.6)	(4.7)
Investment income	<u>.3</u>	<u>.1</u>	<u>.1</u>
Earnings (loss) before provision (benefit) for income taxes	(263.3)	6.9	1.0
Provision (benefit) for income taxes	<u>(71.3)</u>	<u>2.8</u>	<u>1.2</u>
Net earnings (loss)	<u>(192.0)%</u>	<u>4.1%</u>	<u>(.2)%</u>

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The tables that follow set forth, for the periods presented, (a) certain unaudited consolidated operating results, (b) the change in the amount and the percentage change of such results as compared to the prior comparable period, (c) the percentage which such results bear to net sales, and (d) the change of such percentages as compared to the prior comparable period. The results of operations for the first nine months ended October 4, 2003 are not necessarily indicative of the results of operations to be expected for any other interim period or the full year.

	<u>First Nine Months Ended</u>		<u>Change in Earnings in the</u>	
	<u>Oct. 4,</u>	<u>Sept. 28,</u>	<u>First Nine Months 2003</u>	
	<u>2003 (1)</u>	<u>2002</u>	<u>as Compared to 2002</u>	
			<u>\$</u>	<u>%</u>
	<i>(Dollar amounts in millions)</i>			
Net sales	\$ 1,568.6	\$ 1,451.5	\$ 117.1	8.1%
Cost of products sold	1,133.5	1,044.9	(88.6)	(8.5)
Selling, general and administrative expenses, net	249.5	244.0	(5.5)	(2.3)
Amortization of intangible assets	9.1	4.5	(4.6)	(102.2)
Expenses and charges arising from the				
Recapitalization	<u>87.7</u>	<u>6.2</u>	<u>(81.5)</u>	*
Operating earnings	88.8	151.9	(63.1)	(41.5)
Interest expense	(73.3)	(72.4)	(.9)	(1.2)
Investment income	<u>1.2</u>	<u>5.5</u>	<u>(4.3)</u>	(78.2)
Earnings from continuing operations				
before provision for income taxes	16.7	85.0	(68.3)	(80.4)
Provision for income taxes	<u>19.1</u>	<u>35.7</u>	<u>16.6</u>	46.5
Earnings (loss) from continuing operations	(2.4)	49.3	(51.7)	(104.9)
Earnings from discontinued operations	<u>---</u>	<u>5.7</u>	<u>(5.7)</u>	(100.0)
Net earnings (loss)	<u>\$ (2.4)</u>	<u>\$ 55.0</u>	<u>\$ (57.4)</u>	(104.4)%
	<u>Percentage of Net Sales</u>		<u>Change in Percentage</u>	
	<u>First Nine Months Ended</u>		<u>for the First</u>	
	<u>Oct. 4,</u>	<u>Sept. 28,</u>	<u>Nine Months 2003</u>	
	<u>2003 (1)</u>	<u>2002</u>	<u>as Compared to 2002</u>	
Net sales	100.0%	100.0%	---	%
Cost of products sold	72.3	72.0	(.3)	
Selling, general and administrative expenses, net	15.9	16.8	.9	
Amortization of intangible assets	.6	.3	(.3)	
Expense and charges arising from the				
Recapitalization	<u>5.6</u>	<u>.4</u>	<u>(5.2)</u>	
Operating earnings	5.6	10.5	(4.9)	
Interest expense	(4.7)	(5.0)	.3	
Investment income	<u>.1</u>	<u>.4</u>	<u>(.3)</u>	
Earnings from continuing operations				
before provision for income taxes	1.0	5.9	(4.9)	
Provision for income taxes	<u>1.2</u>	<u>2.5</u>	<u>1.3</u>	
Earnings (loss) from continuing operations	(.2)	3.4	(3.6)	
Earnings from discontinued operations	<u>---</u>	<u>.4</u>	<u>(.4)</u>	
Net earnings (loss)	<u>(.2)%</u>	<u>3.8%</u>	<u>(4.0)%</u>	

(1) The nine month period ended October 4, 2003 represents the combined pre- and post-Recapitalization periods of January 1, 2003 through January 9, 2003 and January 10, 2003 through October 4, 2003, respectively.

* not meaningful

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Combined consolidated net sales increased approximately \$50,500,000 or 10.0% for the third quarter of 2003 as compared to the third quarter of 2002 and increased approximately \$117,100,000 or 8.1% for the first nine months of 2003 as compared to the first nine months of 2002. The effect of changes in foreign currency exchange rates accounted for approximately \$10,100,000 of the increase in net sales in the third quarter of 2003 and approximately \$29,500,000 of the increase in net sales in the first nine months of 2003. Net sales increased for the third quarter of 2003 as compared to the third quarter of 2002 as a result of the acquisitions of Elan and SPC, price increases and higher net sales volume. The acquisitions of Elan in January of 2003 and SPC in July of 2003 contributed approximately \$16,900,000 and \$28,000,000 of the total increase in net sales for the third quarter and first nine months of 2003, respectively, as compared to 2002. Excluding the effect of changes in foreign currency exchange rates and the acquisitions of Elan and SPC, consolidated net sales increased approximately \$23,500,000 or 4.7% from the third quarter of 2003 as compared to the third quarter of 2002 as follows:

Third Quarter Net Sales		
	Amount	% Change
Net sales for the third quarter 2003	\$ 555,100,000	
Net sales for the third quarter 2002	<u>504,600,000</u>	
Net increase	50,500,000	10.0%
Effect of changes in foreign currency exchange rates	(10,100,000)	
Effect of the acquisitions of Elan and SPC	<u>(16,900,000)</u>	
Increase	<u>\$ 23,500,000</u>	4.7%

This increase is summarized by segment as follows:

Increase in net sales in the third quarter of 2003		
	Amount	% Change
Residential Building Products	\$ 12,200,000	6.7%
Air Conditioning and Heating Products	3,100,000	1.8
Windows, Doors and Siding Products	<u>8,200,000</u>	5.6
	<u>\$ 23,500,000</u>	4.7%

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Net sales increased for the first nine months of 2003 as compared to the first nine months of 2002 as a result of the acquisitions of Elan and SPC, price increases and higher net sales volume. Excluding the effect of changes in foreign currency exchange rates and the acquisitions of Elan and SPC, consolidated net sales increased approximately \$59,600,000 or 4.1% from the first nine months of 2003 as compared to the first nine months of 2002 as follows:

	First Nine Months Net Sales	
	Amount	% Change
Net sales for the period Jan. 1, 2003 to Jan. 9, 2003	\$ 33,800,000	
Net sales for the period Jan. 10, 2003 to Oct. 4, 2003	<u>1,534,800,000</u>	
Total combined net sales	1,568,600,000	
Net sales for the period Jan. 1, 2002 to Sept. 28, 2002	<u>1,451,500,000</u>	
Net increase	117,100,000	8.1%
Effect of changes in foreign currency exchange rates	(29,500,000)	
Effect of the acquisitions of Elan and SPC	<u>(28,000,000)</u>	
Increase	<u>\$ 59,600,000</u>	4.1%

This increase is summarized by segment as follows:

	Increase in net sales in the first nine months of 2003	
	Amount	% Change
Residential Building Products	\$ 19,600,000	3.6%
Air Conditioning and Heating Products	16,000,000	3.1
Windows, Doors and Siding Products	<u>24,000,000</u>	6.1
	<u>\$ 59,600,000</u>	4.1%

Overall, increases in sales levels in the third quarter and first nine months of 2003 reflect the ongoing stability of the housing construction and remodeling markets and our expanded branding effort in our line of air conditioning and heating products, partially offset by the general slowdown in commercial construction activity and the continued softness in the manufactured housing market. The nine months ended October 4, 2003 includes 277 days while the nine months ended September 28, 2002 includes 271 days. For the third quarter ended October 4, 2003 and the third quarter ended September 28, 2002, the Company's net sales to customers serving the manufactured housing markets, principally consisting of air conditioners, furnaces and vinyl siding and skirting products, constituted approximately 7.2% and 9.2%, respectively, of the Company's consolidated net sales. For the first nine months ended October 4, 2003 and the first nine months ended September 28, 2002, the Company's net sales to customers serving the manufactured housing markets, constituted approximately 7.3% and 9.0%, respectively, of the Company's consolidated net sales. The increase in net sales volume in the Residential Building Products Segment in the third quarter and first nine months of 2003 as compared to the third quarter and first nine months of 2002 was, in part, the result of new products and the ongoing stability in the residential housing construction and remodeling markets. Increased sales volume of bathroom exhaust fans, range hoods and garage door openers was

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also a factor in the increase in this segment in the third quarter and first nine months of 2003. The increase in net sales in the Air Conditioning and Heating Products Segment in the third quarter and first nine months of 2003 as compared to 2002 was due to continued growth principally from this segment's brand-name strategy resulting in increased sales volume of HVAC products to the residential site built market. In the third quarter and first nine months of 2003, the Segment benefited from the introduction of our Westinghouse ® and Maytag ® brands and from the ongoing success of existing brands. These increases were partially offset by the general slowdown in commercial construction activity, which reduced the level of shipments of the Company's commercial HVAC products and lower sales to the manufactured housing market in this segment as continued softness is being experienced by this industry. The trend of lower levels of orders and shipments of commercial HVAC products, particularly in the office building and telecommunications markets, is expected to continue into 2004. The increase in net sales in the third quarter and first nine months of 2003 as compared to 2002 in the Windows, Doors and Siding Products Segment was principally due to continued stability in new residential construction and remodeling activity, increased sales prices of vinyl siding products, increased volume of vinyl fence, decking and railing products and increased volume of windows primarily by the Segment's Canadian operations. These increases were partially offset by approximately \$1,200,000 of charges to net sales related to expanded distribution, including new customers, that occurred in the first quarter of 2003.

Cost of products sold, as a percentage of net sales, decreased from approximately 72.5% in the third quarter of 2002 to approximately 70.8% in the third quarter of 2003 and increased from approximately 72.0% in the first nine months of 2002 to approximately 72.3% in the first nine months of 2003. Cost of products sold for the third quarter of 2003 includes approximately \$8,400,000 of cost of products sold from the acquisitions of Elan and SPC, an increase of approximately \$7,500,000 related to the effect of changes in foreign currency exchange rates, a non-cash charge of approximately \$300,000 related to the amortization of excess purchase price allocated to inventory and approximately \$3,400,000 of lower depreciation expense as a result of the fair value adjustment to property, plant and equipment related to the Recapitalization. Excluding the effect of the acquisitions of Elan and SPC (which have a lower cost of sales as a percentage of net sales than the overall group of businesses owned prior to the acquisitions), changes in foreign currency exchange rates, the write-off of excess purchase price allocated to inventory and lower depreciation expense as a result of the fair value adjustment to property, plant and equipment, cost of products sold was approximately \$380,300,000 or approximately 72.0% as a percentage of net sales during the third quarter of 2003 as compared to 72.5% in the third quarter of 2002 as follows:

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	Third Quarter	
	Cost of products sold	
	Amount	% of Net Sales
Cost of products sold for the third quarter 2003	\$393,100,000	70.8%
Effect of the acquisitions of Elan and SPC	(8,400,000)	
Effect of changes in foreign currency exchange rates	(7,500,000)	
Effect of excess purchase price allocated to inventory	(300,000)	
Effect of the reduction in depreciation expense on property and equipment resulting from fair value adjustments	<u>3,400,000</u>	
	<u>\$380,300,000</u>	72.0%

Cost of products sold for the first nine months of 2003 includes approximately \$14,400,000 of cost of products sold from the acquisitions of Elan and SPC, an increase of approximately \$23,100,000 related to the effect of changes in foreign currency exchange rates, a non-cash charge of approximately \$6,700,000 related to the amortization of excess purchase price allocated to inventory and approximately \$9,700,000 of lower depreciation expense as a result of the fair value adjustment to property, plant and equipment. Excluding the effect of the acquisitions of Elan and SPC (which have a lower cost of sales as a percentage of net sales than the overall group of businesses owned prior to the acquisitions), changes in foreign currency exchange rates, the write-off of excess purchase price allocated to inventory and lower depreciation expense as a result of the fair value adjustment to property, plant and equipment, cost of products sold was approximately \$1,099,000,000 or approximately 72.7% as a percentage of net sales during the first nine months of 2003 as compared to 72.0% in the first nine months of 2002 as follows:

	First Nine Months	
	Cost of products sold	
	Amount	% of Net Sales
Cost of products sold for the period Jan. 1, 2003 to Jan. 9, 2003	\$ 26,300,000	
Cost of products sold for the period Jan. 10, 2003 to Oct. 4, 2003	<u>1,107,200,000</u>	
Total combined cost of products sold	1,133,500,000	72.3%
Effect of the acquisitions of Elan and SPC	(14,400,000)	
Effect of changes in foreign currency exchange rates	(23,100,000)	
Effect of the write-off of excess purchase price for inventory	(6,700,000)	
Effect of the reduction in depreciation expense on property and equipment resulting from fair value adjustments	<u>9,700,000</u>	
	<u>\$1,099,000,000</u>	72.7%

Material costs were approximately 44.7% and 46.0% of net sales for the third quarter of 2003 compared to the third quarter of 2002, respectively, and approximately 45.1% and 44.6% of net sales for the first nine months of 2003 compared to the first nine months of 2002, respectively. Material

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costs as a percent of net sales increased in the first nine months of 2003 compared to the first nine months of 2002 primarily due to the increase in the cost of PVC resin beginning in the second half of 2002. PVC resin costs have increased since the second half of 2002. Continued strength in the new home construction and remodeling markets has increased the demand for PVC resin. A number of manufacturers of other products (including building products that the Company does not manufacture or sell) compete with the Company for the available supply of PVC resin. The manufacturing process for PVC resin suppliers, utilizes ethylene, which is refined from either oil or natural gas. As a result of these and other factors, the price of PVC resin is subject to volatility. PVC resin is used by the Company primarily in the Windows, Doors and Siding Products Segment. This increase in material costs in the first nine months of 2003 as compared to 2002 was partially offset by reductions realized in the cost of certain purchased materials and component parts, in part, due to strategic sourcing initiatives. Cost reductions due to strategic sourcing initiatives and favorable steel prices were primarily responsible for the decrease in material costs as a percentage of net sales in the third quarter of 2003 as compared to 2002. Manufacturing cost reduction measures implemented in 2002 and the first nine months of 2003 partially offset the effect of the increase in cost of products sold as a percentage of net sales in the first nine months of 2003 compared to the first nine months of 2002 and combined with net sales increases contributed to the decrease in cost of products sold as a percentage of net sales in the third quarter of 2003 compared to the third quarter of 2002. Increased sales volume of HVAC products to residential site built customers in the Air Conditioning and Heating Products Segment, without a proportionate increase in cost partially offset the effect of the increase in cost of goods sold as a percentage of net sales in the first nine months of 2003 and was a factor in the decrease in costs in the third quarter. In the third quarter and first nine months of 2003, approximately \$2,300,000 and \$3,700,000 of severance and other costs associated with the closure of certain manufacturing facilities within the Air Conditioning and Heating Products Segment are included in cost of products sold. Cost of products sold for the Air Conditioning and Heating Products Segment for the third quarter and first nine months also include approximately \$400,000 and \$1,000,000, respectively, of expenses associated with the start-up of a new manufacturing facility. Overall, changes in the cost of products sold as a percentage of net sales for one period as compared to another period may reflect a number of factors including changes in the relative mix of products sold, the effect of changes in sales prices, material costs and changes in productivity levels.

Selling, general and administrative expense ("SG&A") was \$84,400,000 in the third quarter of 2003 and \$83,400,000 in the third quarter of 2002. SG&A as a percentage of net sales decreased from approximately 16.5% in the third quarter of 2002 to approximately 15.2% in the third quarter of 2003. SG&A in the third quarter of 2003 includes approximately \$100,000 of direct expenses and third party fees associated with the Company's strategic sourcing initiative, approximately \$5,700,000 of SG&A from the acquisitions of Elan and SPC and an increase of approximately \$1,500,000 related to the effect of changes in foreign currency exchange rates. SG&A in the third quarter of 2002 includes approximately \$1,600,000 of direct expenses and third party fees associated with the Company's strategic sourcing initiative and approximately \$2,100,000 of fees and expenses incurred in connection with the Company's re-audit of its Consolidated Financial Statements for each of the three years in the period ended December 31, 2001. The direct expenses and third party fees associated with the Company's strategic sourcing initiative and the fees and expenses related to the re-audit of the Company's Consolidated Financial Statements are set forth separately in the segment data. Excluding the effect of (a) expenses related to the Company's strategic sourcing initiative in the third quarter of 2003 and 2002, (b) the acquisitions of Elan and SPC (which have a higher level of

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SG&A as a percentage of net sales than the overall group of businesses owned prior to the acquisitions), (c) the fees and expenses incurred in connection with the Company's re-audit of its Consolidated Financial Statements for each of the three years in the period ended December 31, 2001 in the third quarter of 2002 and (d) the effect of changes in foreign currency exchange rates in the third quarter of 2003, SG&A was approximately \$77,100,000 or approximately 14.6% as a percentage of net sales during the third quarter of 2003 as compared to approximately \$79,700,000 or approximately 15.8% in the third quarter of 2002 as follows:

	Three Months Ended			
	Post-Recapitalization		Pre-Recapitalization	
	October 4, 2003		September 28, 2002	
	Amount	% of Net Sales	Amount	% of Net Sales
SG&A	\$ 84,400,000	15.2%	\$83,400,000	16.5%
Strategic sourcing initiative fees and expenses	(100,000)		(1,600,000)	
Effect of the acquisitions of Elan and SPC	(5,700,000)		---	
Effect of re-audit fees and expenses	---		(2,100,000)	
Effect of changes in foreign currency exchange rates	(1,500,000)		---	
	<u>\$ 77,100,000</u>	14.6%	<u>\$79,700,000</u>	15.8%

Combined SG&A was approximately \$249,500,000 in the first nine months of 2003 as compared to \$244,000,000 in the first nine months of 2002. SG&A as a percentage of net sales decreased from approximately 16.8% in the first nine months of 2002 to approximately 15.9% in the first nine months of 2003. SG&A in the first nine months of 2003 includes approximately \$1,900,000 of direct expenses and third party fees associated with the Company's strategic sourcing initiative, approximately \$9,300,000 of SG&A from the acquisitions of Elan and SPC and an increase of approximately \$4,600,000 related to the effect of changes in foreign currency exchange rates. SG&A in the first nine months of 2002 includes approximately \$1,600,000 of direct expenses and third party fees associated with the Company's strategic sourcing initiative, approximately \$2,100,000 of fees and expenses incurred in connection with the Company's re-audit of its Consolidated Financial Statements for each of the three years in the period ended December 31, 2001 and a \$4,400,000 charge relating to an incentive earned by certain of the Company's officers under the Company's 1999 Equity Performance Plan. The direct expenses and third party fees associated with the Company's strategic sourcing initiative, the fees and expenses related to the re-audit of the Company's Consolidated Financial Statements and the charge relating to an incentive earned by certain of the Company's officers under the Company's 1999 Equity Performance Plan are forth separately in the segment data. Excluding the effect of (a) expenses related to the Company's strategic sourcing initiative in the first nine months of 2003 and 2002, (b) the acquisitions of Elan and SPC (which have a higher level of SG&A as a percentage of net sales than the overall group of businesses owned prior to the acquisitions), (c) the fees and expenses incurred in connection with the Company's re-audit of its Consolidated Financial Statements for each of the three years in the period ended December 31, 2001 in the third quarter of 2002, (d) the \$4,400,000 charge relating to an incentive earned by certain of the Company's officers under the Company's 1999 Equity

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Performance Plan in 2002 and (e) the effect of changes in foreign currency exchange rates in the first nine months of 2003, SG&A was approximately \$233,700,000 or approximately 15.5% as a percentage of net sales during the first nine months of 2003 as compared to approximately \$235,900,000 or approximately 16.3% in the first nine months of 2002 as follows:

	For the Periods Ended			
	October 4, 2003		September 28, 2002	
	Amount	% of Net Sales	Amount	% of Net Sales
SG&A for the Pre-Recapitalization Period	\$ 6,500,000		\$ 244,000,000	
SG&A for the Post-Recapitalization Period	<u>243,000,000</u>		<u>---</u>	
Total combined SG&A	249,500,000	15.9%	244,000,000	16.8%
Strategic sourcing initiative fees and expenses	(1,900,000)		(1,600,000)	
Effect of the acquisitions of Elan and SPC	(9,300,000)		---	
Effect of re-audit fees and expenses	---		(2,100,000)	
Effect of 1999 Equity Performance Plan	---		(4,400,000)	
Effect of changes in foreign currency exchange rates	<u>(4,600,000)</u>		<u>---</u>	
	<u>\$ 233,700,000</u>	15.5%	<u>\$ 235,900,000</u>	16.3%

The decrease in the percentage for both periods is principally due, in part, to lower compensation and benefit expenses of certain members of management subsequent to the Recapitalization and higher sales without a proportionate increase in expense in the Windows, Doors and Siding Products Segment and the Air Conditioning and Heating Products segment in the third quarter and in the first nine months in the Residential Building Products Segment. These decreases were partially offset by increased expense levels associated with the Company's brand name strategy of HVAC products sold to the residential site built market. In the first nine months of 2003, approximately \$600,000 of severance and other costs, incurred in the first half of 2003, associated with the closure of a manufacturing facility within the Windows, Doors and Siding Products Segment are included in selling, general and administrative expense. There were no additional costs and expenses incurred in the third quarter of 2003 related to the closure of the manufacturing facility in the Windows, Doors and Siding Products Segment.

Amortization of intangible assets, as a percentage of net sales, increased from approximately 0.3% in both the third quarter and first nine months of 2002 to approximately 0.6% in both the third quarter and first nine months of 2003 principally as a result of approximately \$1,600,000 and \$4,600,000 of increased amortization in relation to the increase from the estimated amount of fair value adjustments to intangible assets arising from the Recapitalization in the third quarter and first nine months of 2003, respectively. This increased amortization is based on preliminary estimates of the Company's intangible assets and their lives at the date of the Recapitalization (see Note A of the Notes to the Unaudited Financial Statements included elsewhere herein).

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Expenses and charges arising from the Recapitalization were \$1,000,000 or 0.2%, as a percentage of net sales, in the third quarter of 2002 and were \$87,700,000 or 5.6%, as a percentage of net sales, and \$6,200,000 or 0.4%, as a percentage of net sales, in the first nine months of 2003 and 2002, respectively. See Liquidity and Capital Resources and Notes B, F and J of the Notes to the Unaudited Financial Statements included elsewhere herein, for further discussion of these expenses and charges.

Consolidated operating earnings increased by approximately \$21,500,000 from approximately \$53,000,000 in the third quarter of 2002 to approximately \$74,500,000 in the third quarter of 2003 and decreased by approximately \$63,100,000 from approximately \$151,900,000 in the first nine months of 2002 to approximately \$88,800,000 in the first nine months of 2003 as a result of the factors discussed above.

Consolidated operating earnings have been reduced by depreciation and amortization expense (other than amortization of deferred debt expense and debt premium and discount) of approximately \$9,725,000 and \$10,658,000 for the third quarter of 2003 and 2002, respectively, and approximately \$29,330,000 and \$32,605,000 for the first nine months of 2003 and 2002, respectively. Consolidated operating earnings for the third quarter and first nine months of 2003 includes approximately \$1,600,000 and \$4,600,000, respectively, of additional amortization expense of intangible assets, approximately \$300,000 and \$6,700,000, respectively, of write-off of excess purchase price allocated to inventory, and \$3,400,000 and \$9,700,000, respectively, of lower depreciation expense of property, plant and equipment as a result of the fair value adjustments arising from the Recapitalization.

Excluding the effect of (a) approximately \$1,000,000 of fees and expenses in the third quarter of 2002 associated with the Recapitalization of the Company, (b) the \$2,100,000 of fees and expenses incurred in connection with the Company's re-audit of its Consolidated Financial Statements for each of the three years in the period ended December 31, 2001, recorded in the third quarter of 2002, (c) approximately \$100,000 and \$1,600,000 of direct expenses and third party fees associated with the Company's strategic sourcing initiative incurred in the third quarter of 2003 and 2002, respectively, (d) approximately \$2,700,000 of operating earnings contributed by the acquisitions of Elan and SPC in 2003, (e) \$3,400,000 of lower depreciation expense as a result of the fair value adjustment to property, plant and equipment, (f) approximately \$1,600,000 of increased amortization from the estimated amount of fair value adjustment to intangible assets, (g) the non-cash charge of approximately \$300,000 related to the write-off of excess purchase price allocated to inventory, and (h) approximately \$900,000 of increased operating earnings from the effect of changes in foreign currency exchange rates in the third quarter of 2003, operating earnings increased approximately \$11,800,000 from approximately \$57,700,000 in the third quarter of 2002 to \$69,500,000 in the third quarter of 2003 as follows:

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	Three Months Ended	
	Post- Recapitalization October 4, 2003	Pre- Recapitalization September 28, 2002
Operating Earnings for the third quarter of 2003 and 2002	\$ 74,500,000	\$ 53,000,000
Fees and expenses arising from the Recapitalization	---	1,000,000
Effect of re-audit fees and expenses	---	2,100,000
Strategic sourcing initiative fees and expenses	100,000	1,600,000
Effect of the acquisitions of Elan and SPC	(2,700,000)	---
Effect of the reduction in depreciation expense on property and equipment resulting from fair value adjustments	(3,400,000)	---
Amortization expense on fair value of intangible assets	1,600,000	---
Effect of the write-off of excess purchase price for inventory	300,000	---
Effect of changes in foreign currency exchange rates	(900,000)	---
	<u>\$ 69,500,000</u>	<u>\$ 57,700,000</u>
Operating earnings for the third quarter of 2002	<u>57,700,000</u>	
Increase	<u>\$ 11,800,000</u>	

This increase is summarized by segment as follows:

	Increase in operating earnings	
	Amount	%
Residential Building Products	\$ 4,200,000	12.7%
Air Conditioning and Heating Products	1,800,000	11.6
Windows, Doors and Siding Products	<u>1,100,000</u>	4.7
Subtotal	7,100,000	9.8
Other	<u>4,700,000</u>	32.2
	<u>\$ 11,800,000</u>	20.5%

Excluding the effect of (a) approximately \$87,700,000 of fees and expenses associated with the Recapitalization of the Company in the first nine months of 2003 and approximately \$6,200,000 of fees and expenses in the first nine months of 2002 associated with the Recapitalization of the Company, (b) the effect of the incentive earned by certain of the Company's officers under the Company's 1999 Equity Performance Plan of approximately \$4,400,000 in the second quarter of 2002, (c) the effect of the fees and expenses incurred in connection with the Company's re-audit of its Consolidated Financial Statements for each of the three years in the period ended December 31, 2001 of approximately \$2,100,000 in the third quarter of 2002, (d) approximately \$1,900,000 and \$1,600,000 of direct expenses and third party fees associated with the Company's strategic sourcing initiative incurred in the first nine months of 2003 and 2002, respectively, (e) approximately \$4,300,000 of operating earnings contributed by the acquisitions of Elan and SPC in 2003, (f) the non-cash charge of approximately \$6,700,000 related to the write-off of excess purchase price allocated to inventory, (g) \$9,700,000 of lower depreciation expense as a result of the fair value adjustment to property, plant and equipment, (h) approximately \$4,600,000 of increased amortization from the estimated

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amount of fair value adjustment to intangible assets and (i) approximately \$1,600,000 of increased operating earnings from the effect of changes in foreign currency exchange rates in the first nine months of 2003, operating earnings increased approximately \$7,900,000 from approximately \$166,200,000 in the first nine months of 2002 to \$174,100,000 in the first nine months of 2003 as follows:

	For the Periods Ended	
	October 4, 2003	September 28, 2002
Operating earnings for the Pre-Recapitalization Period	\$ (86,800,000)	\$ 151,900,000
Operating earnings for the Post-Recapitalization Period	<u>175,600,000</u>	<u>---</u>
Total combined operating earnings	88,800,000	151,900,000
Fees and expenses arising from the Recapitalization	87,700,000	6,200,000
Effect of 1999 Equity Performance Plan	---	4,400,000
Effect of re-audit fees and expenses	---	2,100,000
Strategic sourcing initiative fees and expenses	1,900,000	1,600,000
Effect of the acquisitions of Elan and SPC	(4,300,000)	---
Effect of the write-off of excess purchase price for inventory	6,700,000	---
Effect of the reduction in depreciation expense on property and equipment resulting from fair value adjustments	(9,700,000)	---
Amortization expense on fair value of intangible assets	4,600,000	---
Effect of changes in foreign currency exchange rates	<u>(1,600,000)</u>	<u>---</u>
	\$174,100,000	<u>\$ 166,200,000</u>
Operating earnings for the period Jan. 1, 2002 to Sept. 28, 2002	<u>166,200,000</u>	
Increase	<u>\$ 7,900,000</u>	

This increase is summarized by segment as follows:

	Increase (decrease) in operating earnings	
	Amount	%
Residential Building Products	\$ 6,000,000	6.5%
Air Conditioning and Heating Products	(1,600,000)	(3.0)
Windows, Doors and Siding Products	<u>(7,800,000)</u>	(13.3)
Subtotal	(3,400,000)	(1.7)
Other	<u>11,300,000</u>	29.8
	<u>\$ 7,900,000</u>	4.8%

The increase in operating earnings in the Residential Building Products Segment in the third quarter and first nine months of 2003 was primarily as a result of increased sales volume, principally bathroom exhaust fans and kitchen range hoods, due to the continued stability of new home construction and remodeling markets and increased sales of garage door openers. The decrease in operating earnings in the Air Conditioning and Heating Products Segment in the first nine months of 2003 was principally due to a decrease in operating earnings of certain product lines due to the general slowdown in the commercial construction and manufactured housing markets, partially offset

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by increased sales volume of HVAC products to customers serving the residential site built market without a proportionate increase in costs and expenses. Operating earnings for the Air Conditioning and Heating Products Segment increased in the third quarter of 2003 as compared to the third quarter of 2002 primarily due to strategic sourcing initiatives, cost reduction measures implemented in 2002 and the first nine months of 2003 and favorable steel prices. Increased sales volume of HVAC products to customers serving the residential site built market without a proportionate increase in costs and expenses was also a factor in the increase in operating earnings in this segment in the third quarter of 2003 as compared to the third quarter of 2002. The operating results of the Air Conditioning and Heating Products Segment for the third quarter and first nine months of 2003 include approximately \$2,300,000 and \$3,700,000, respectively, of severance and other costs associated with the closure of certain manufacturing facilities. The operating results of the Air Conditioning and Heating Products Segment for the three months ended October 4, 2003 and the period from January 10, 2003 to October 4, 2003 also include approximately \$400,000 and \$1,000,000, respectively, of expenses associated with the start-up of a new manufacturing facility. The decrease in operating earnings in the Windows, Doors and Siding Products Segment in the first nine months of 2003 was primarily as a result of an increase in raw materials, primarily PVC resin, partially offset by higher sales prices of vinyl siding products and cost-reduction measures, as compared to 2002, which helped mitigate the impact of the PVC resin. Operating earnings for the Windows, Doors and Siding Products Segment increased in the third quarter of 2003 as compared to the third quarter of 2002 primarily due to increased sales prices of vinyl siding products, strategic sourcing initiatives and cost reduction measures. The operating results of this Segment for the first nine months of 2003 include approximately \$600,000 of severance and other costs associated with the closure of certain manufacturing facilities and expects to incur additional future restructuring costs of less than \$100,000 related to restructuring plans which began to be implemented in the first quarter of 2003. The facilities to be closed are owned by the Company and are expected to be sold in 2004. The operating results of the Windows, Doors and Siding Products segment also include approximately \$1,300,000 of charges and expenses for expanded distribution including new customers in the first nine months of 2003. There were no additional costs and expenses incurred related to the closure of certain manufacturing facilities or the expanded distribution in the Windows, Doors and Siding Products Segment in the third quarter of 2003.

Operating earnings of foreign operations, consisting primarily of the results of operations of the Company's Canadian and European subsidiaries, were approximately 11.4% and 6.7% of operating earnings (before corporate overhead) in the third quarter of 2003 and 2002, respectively, and approximately 8.0% and 6.8% of operating earnings (before corporate overhead) in the first nine months of 2003 and 2002, respectively. Sales and earnings derived from international markets are subject to, among others, the risks of currency fluctuations.

Interest expense in the third quarter of 2003 decreased approximately \$1,200,000 or approximately 5.0% as compared to the third quarter of 2002 and increased approximately \$900,000 or approximately 1.2% in the first nine months of 2003 as compared to the first nine months of 2002. The increase in interest expense in the first nine months of 2003 is primarily due to approximately \$4,100,000 of interest expense from the amortization of the Bridge Facility commitment fees and related expenses. Interest expense in the third quarter and first nine months of 2002 includes a non-cash reduction in interest expense of approximately \$400,000 and \$1,200,000, respectively, related to the Company's interest rate collar agreement, which was terminated in August 2002. The combined periods from

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January 1, 2003 to January 9, 2003 and from January 10, 2003 to October 4, 2003 contain 277 days while the first nine months of 2002 contained 271 days, accordingly, operating results for 2003 include approximately \$1,000,000 of additional interest expense as compared to 2002 since the Company accrues interest expense based on the number of days contained in each reporting period. The increase in interest expense was partially offset by approximately \$1,500,000 and \$4,300,000 in the third quarter and first nine months of 2003, respectively, of lower interest expense from the amortization of premium arising from the fair value adjustment on the date of the Recapitalization allocated to indebtedness as compared to the Company's historical basis of accounting prior to the Recapitalization and reflects the effect of a net reduction in debt. In the third quarter and first nine months of 2002, interest expense included approximately \$850,000 and \$2,550,000, respectively, of non-cash amortization of deferred debt expense and original issue discount related to the Company's 8 7/8% Senior Notes due 2008, 9 1/4% Senior Notes due 2007, 9 1/8% Senior Notes due 2007 and 9 7/8% Senior Subordinated Notes due 2011 (the "Existing Notes"). See Liquidity and Capital Resources and Notes A, B and D of the Notes to the Unaudited Financial Statements included elsewhere herein.

Investment income decreased approximately \$1,500,000 or 83.3% in the third quarter of 2003 as compared to the third quarter of 2002 and decreased approximately \$4,300,000 or 78.2% in the first nine months of 2003 as compared to the first nine months of 2002 primarily as a result of lower average invested balances in 2003 primarily as a result of the funds utilized in the Recapitalization and for acquisitions. Included in investment income in the third quarter and first nine months of 2002 was approximately \$700,000 and \$2,000,000, respectively, related to restricted investments and marketable securities held by pension trusts (including related party amounts) which funds were distributed to participants on the date of the Recapitalization.

The income tax provision from continuing operations was approximately \$21,900,000 for the third quarter of 2003 as compared to approximately \$14,200,000 for the third quarter of 2002 and was approximately \$19,100,000 for the first nine months of 2003 as compared to approximately \$35,700,000 for the first nine months of 2002. The income tax rates in both 2003 and 2002 differed from the United States Federal statutory rate of 35% principally as a result of the effect of non-deductible expenses, foreign income tax on foreign source income, state income tax provisions, and in 2003 due to the Recapitalization. (See Notes A, B and K of the Notes to the Unaudited Financial Statements included elsewhere herein.)

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Earnings from discontinued operations for the third quarter and first nine months ended September 28, 2002 were approximately \$100,000 and \$5,700,000, respectively. The table that follows presents a summary of the operating results of discontinued operations for the third quarter and first nine months ended September 28, 2002. (See Note H of the Notes to the Unaudited Financial Statements included elsewhere herein.)

	<u>Three Months Ended</u> <u>September 28, 2002</u> <i>(Amounts in thousands)</i> <i>(Unaudited)</i>	<u>Nine Months Ended</u>
Net Sales	\$ <u>2,400</u>	\$ <u>24,400</u>
Earnings before income taxes	\$ 200	\$ 2,500
Provision for income taxes	<u>100</u>	<u>1,000</u>
Earnings from discontinued operations	100	1,500
Gain on sale of discontinued operations, net of provision for income taxes of \$1,200,000	<u>---</u>	<u>4,200</u>
Earnings from discontinued operations	<u>\$ 100</u>	<u>\$ 5,700</u>
Depreciation and amortization expense	\$ <u>149</u>	\$ <u>742</u>

SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 with early adoption permitted. The Company adopted SFAS No. 143 on January 1, 2003. Adoption of this accounting standard was not material to the Company's Unaudited Financial Statements.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" ("SFAS No. 145"), was issued in April 2002 and addresses the reporting of gains and losses resulting from the extinguishment of debt, accounting for sale-leaseback transactions and rescinds or amends other existing authoritative pronouncements. SFAS No. 145 requires that any gain or loss on extinguishment of debt that does not meet the criteria of APB 30 for classification as an extraordinary item shall not be classified as extraordinary and shall be included in earnings from continuing operations. The provisions of this statement related to the extinguishment of debt are effective for financial statements issued in fiscal years beginning after May 15, 2002 with early application encouraged. The Company adopted SFAS No. 145 on January 1, 2003 and adoption of this accounting standard was not material to the results presented in the Unaudited Financial Statements.

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Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which addresses the accounting and reporting for costs associated with exit or disposal activities, nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3") and substantially nullifies EITF Issue No. 88-10, "Costs Associated with Lease Modification or Termination" ("EITF 88-10"). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost as defined in EITF 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company's Unaudited Financial Statements. (See Note N of the Notes to the Unaudited Financial Statements included elsewhere herein.)

On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting". The Company accounts for stock-based compensation in accordance with APB No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company has provided the required disclosures under SFAS No. 148. (See Note L of the Notes to the Unaudited Financial Statements included elsewhere herein.)

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). Along with new disclosure requirements, FIN 45 requires guarantors to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. This differs from the prior practice to record a liability only when a loss is probable and reasonably estimable. The recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company adopted the disclosure provisions of FIN 45 as of December 31, 2002 and adopted the entire interpretation on January 1, 2003. Adoption of FIN 45 was not material to the Company's Unaudited Financial Statements. (See Note M of the Notes to the Unaudited Financial Statements included elsewhere herein.)

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 clarifies the application of ARB No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN 46 apply to the Company immediately for variable interest entities created after January 31, 2003 and for existing variable interest entities no later than the end of the first annual reporting period beginning after December 15, 2003. The Company is currently evaluating the impact of adopting FIN 46 on its consolidated financial statements.

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In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"), which clarifies the financial accounting and reporting proscribed by SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") for derivative instruments, including certain derivative instruments embedded in other contracts. Certain provisions of SFAS No. 149 related to implementation issues of SFAS No. 133 are already effective and other provisions related to forward purchases or sales are effective for both existing contracts and new contracts entered into after June 30, 2003. The Company has previously adopted SFAS No. 133, including the implementation issues addressed in SFAS No. 149, and the adoption of the new provisions of SFAS No. 149 on July 1, 2003 did not have a material impact on the Company's Unaudited Financial Statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"), which addresses the accounting and reporting for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003 and for all existing financial instruments beginning in the first interim period after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, which are subject to the provisions for the first fiscal period beginning after December 15, 2004. The Company adopted SFAS No. 150 on July 1, 2003. Adoption of this accounting standard did not have a material impact to the Company's Unaudited Financial Statements.

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Liquidity and Capital Resources

On January 8, 2003, at a special meeting of stockholders of Nortek Holdings, the stockholders approved the following amendments to the certificate of incorporation (the "Stockholder Approval"), which were required in order to complete the Recapitalization:

- A new class of common stock, Class A Common Stock, par value \$1.00 per share, of Nortek Holdings was created consisting of 19,000,000 authorized shares.
- At the time that the amendment to the certificate of incorporation became effective, each share of common stock, par value \$1.00 per share and special common stock, par value \$1.00 per share outstanding, was reclassified into one share of a new class of mandatorily redeemable common stock, Class B Common Stock, par value \$1.00 per share, of Nortek Holdings consisting of 14,000,000 authorized shares.
- Class B Common Stock was required to be immediately redeemed for \$46 per share in cash upon completion of the Recapitalization.
- The authorized number of shares of Series B Preference Stock, par value \$1.00 per share, was increased to 19,000,000 authorized shares.

Following the Stockholder Approval, common stock and special common stock held by the Management Investors were exchanged for an equal number of newly created shares of Series B Preference Stock. In addition, certain options to purchase shares of common and special common stock held by the Management Investors were exchanged for fully vested options to purchase an equal number of shares of the newly created Class A Common Stock. The remaining outstanding options, including some held by Management Investors, were cancelled in exchange for the right to receive a single lump sum cash payment equal to the product of the number of shares of common stock or special common stock underlying the option and the amount by which the redemption price of \$46 per share exceeded the per share exercise price of the option.

On January 9, 2003, in connection with the Recapitalization, Kelso purchased newly issued shares of Series B Preference Stock for approximately \$355,923,000 and purchased shares of Series B Preference Stock held by the Management Investors for approximately \$18,077,000. Newly issued Class A Common Stock of approximately \$3,262,000 was purchased by designated third parties. Shares of Series B Preference Stock held by the Management Investors that were not purchased by Kelso were converted into an equal number of shares of Class A Common Stock. In addition, the Company declared and distributed to Nortek Holdings a dividend of approximately \$120,000,000 and distributed approximately \$27,900,000 for reimbursement of fees and expenses of Kelso, which were paid out of the Company's unrestricted cash and cash equivalents on hand and were permissible under the most restrictive covenants with respect to the indentures of the Company's 8 7/8% Senior Notes due 2008, 9 1/4% Senior Notes due 2007, 9 1/8% Senior Notes due 2007 and 9 7/8% Senior Subordinated Notes due 2011 (the "Existing Notes").

Nortek Holdings used the proceeds from the purchase by Kelso and designated third parties of the newly issued Series B Preference Stock and Class A Common Stock and the dividend from Nortek to

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redeem Nortek Holdings' Class B Common Stock and to cash out options to purchase common and special common stock totaling approximately \$479,185,000. Kelso also purchased from certain Management Investors 392,978 shares of Series B Preference Stock for approximately \$18,077,000.

In connection with the Recapitalization, K Holdings received a bridge financing letter from a lender for a senior unsecured term loan facility not to exceed \$955,000,000 (the "Bridge Facility"). The Bridge Facility was intended to be used to fund, if necessary, any change in control offers the Company might have made in connection with the Recapitalization. The Company did not use this Bridge Facility because the structure of the Recapitalization did not require the Company to make any change of control offers. The commitment letter expired on January 31, 2003. As a result, the Company's consolidated interest expense for the period from January 10, 2003 to October 4, 2003 includes approximately \$4,100,000 of interest expense from the amortization of the Bridge Facility commitment fees and related expenses. In the third quarter of 2003, the Company did not incur any interest expense related to this commitment letter.

In January 2003, Nortek Holdings filed for the deregistration of its shares of common and special common stock under the Securities Exchange Act of 1934. Nortek Holdings' shares of common and special common stock are no longer publicly traded. The Company will continue to file periodic reports with the SEC as required by the respective indentures of the Company's Existing Notes.

Under the terms of one of the Company's supplemental executive retirement plans ("SERP"), the Company was required to make one-time cash payments to participants in such plan in satisfaction of obligations under that plan when the Recapitalization was completed. Accordingly, the Company made a distribution of approximately \$75,100,000 to the participants in the plan from funds included in the Company's Consolidated Balance Sheet at December 31, 2002 and classified in long-term assets in restricted investments and marketable securities held by pension trusts and transferred to one of the participants a life insurance policy with approximately \$10,300,000 of cash surrender value to satisfy a portion of the SERP's obligation to such participant. The termination and settlement of the obligation of this SERP resulted in a curtailment loss on January 9, 2003. (See Notes B and F of the Notes to the Unaudited Financial Statements included elsewhere herein.)

The total amount of transaction fees and related costs incurred by the Company and Kelso associated with the Recapitalization was approximately \$47,348,000, including the \$27,900,000 noted above, of which approximately \$10,500,000 of advisory fees and expenses was paid to Kelso & Company L.P. A portion of these fees and expenses was recorded by the Company in selling, general and administrative expense, since they were obligations of the Company prior to the Recapitalization. Approximately \$12,848,000 was recorded as expense on January 9, 2003 since these fees and expenses became obligations of the Company upon consummation of the Recapitalization. Approximately \$6,600,000 of expense was previously recorded by the Company in the year ended December 31, 2002, of which \$1,000,000 and \$6,200,000 was recorded in the third quarter and first nine months of 2002, respectively. (See Notes B and F of the Notes to the Unaudited Financial Statements included elsewhere herein.)

The Company is highly leveraged and expects to continue to be highly leveraged for the foreseeable future. The Company had consolidated debt at October 4, 2003, of approximately \$1,014,210,000 (including approximately \$11,440,000 of unamortized debt premium) consisting of (i) \$8,893,000 of

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short-term borrowings and current maturities of long-term debt, (ii) \$48,877,000 of notes, mortgage notes and other indebtedness, (iii) \$212,812,000 of 8 7/8% Senior Notes due 2008 ("8 7/8% Notes"), (iv) \$314,701,000 of 9 1/8% Senior Notes due 2007 ("9 1/8% Notes"), (v) \$178,338,000 of 9 1/4% Senior Notes due 2007 ("9 1/4% Notes") and (vi) \$250,589,000 of 9 7/8% Senior Subordinated Notes due 2011 ("9 7/8% Notes").

The indentures and other agreements governing the Company and its subsidiaries' indebtedness (including the indentures for the 8 7/8% Notes, the 9 1/8% Notes, the 9 1/4% Notes and the 9 7/8% Notes, as well as, the credit agreement for the Senior Secured Credit Facility) contain certain restrictive financial and operating covenants including covenants that restrict the ability of the Company and its subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets and take certain other corporate actions.

At November 13, 2003, there was approximately \$22,300,000 available for the payment of cash dividends, stock purchases or other restricted payments as defined under the terms of the Company's most restrictive debt covenant related to such payments. (See Note G of the Notes to the Unaudited Financial Statements included elsewhere herein.)

At October 4, 2003, the Company had consolidated unrestricted cash and cash equivalents of approximately \$121,026,000 as compared to approximately \$294,804,000 at December 31, 2002. There were no marketable securities at October 4, 2003 and December 31, 2002. Purchases of marketable securities in the first nine months of 2003 of approximately \$30,015,000 matured before October 4, 2003 and were invested in short-term investments with maturities less than 90-days. The decrease in unrestricted cash was primarily due to the dividend and payment of fees and expenses associated with the Recapitalization (see Note B of the Notes to the Unaudited Financial Statements included elsewhere herein) and seasonal increases in working capital. The Company's debt to equity ratio was approximately 2.0:1 at October 4, 2003 as compared to approximately 3.1:1 at December 31, 2002. The change in the ratio was primarily due to an increase in stockholder's investment, primarily as a result of the Recapitalization, which contributed approximately \$284,135,000 to equity and was partially offset by a fair market value adjustment with a net increase in indebtedness of approximately \$18,000,000.

The Company's ability to pay interest on or to refinance its indebtedness depends on the Company's future performance, working capital levels and capital structure which are subject to general economic, financial, competitive, legislative, regulatory and other factors which may be beyond its control. There can be no assurance that the Company will generate sufficient cash flow from the operation of its subsidiaries or that future financings will be available on acceptable terms or in amounts sufficient to enable the Company to service or refinance its indebtedness, or to make necessary capital expenditures.

The Company has evaluated and expects to continue to evaluate possible acquisition transactions and possible dispositions of certain of its businesses on an ongoing basis and at any given time may be engaged in discussions or negotiations with respect to possible acquisitions or dispositions.

EBITDA from operations is operating earnings (loss) from continuing operations plus depreciation and amortization expense (other than amortization of deferred debt expense and debt premium and

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discount) and the non-cash write-off of the portion of the excess purchase price from acquisitions allocated to inventories. For the three months ended October 4, 2003 and September 28, 2002 the Company had consolidated earnings (loss) before depreciation, amortization, non-cash write-off of the portion of the excess purchase price from acquisitions allocated to inventories, interest, net and income taxes ("EBITDA") of approximately \$84,568,000 and \$63,599,000, respectively. For the periods January 10, 2003 through October 4, 2003, January 1, 2003 through January 9, 2003 and the nine months ended September 28, 2002, the Company had consolidated EBITDA of approximately \$210,709,000, \$(85,865,000) and \$184,480,000, respectively. Adjusted EBITDA excludes expenses and charges arising from the Recapitalization. For the three months ended October 4, 2003 and September 28, 2002, the Company had Adjusted EBITDA of approximately \$84,568,000 and \$64,599,000, respectively. For the periods January 10, 2003 through October 4, 2003, January 1, 2003 through January 9, 2003 and the nine months ended September 28, 2002, the Company had Adjusted EBITDA of approximately \$210,709,000, \$1,835,000 and \$190,680,000, respectively. EBITDA is presented as it is a common analytical measurement utilized by investors to assess the Company's performance. The Company's common stock is no longer publicly traded. In accordance with the indentures of the Company's Existing Notes, the Company is required to continue to file periodic reports with the SEC. Numerous covenants contained in the indentures to the Existing Notes require financial measurements involving a cash flow measure similar to EBITDA. In addition, EBITDA is presented as it allows noteholders to assess the Company's ability to service and incur indebtedness. We also believe that EBITDA, when considered with other information, is useful to investors to analyze current results since it reflects operating results before depreciation, amortization and other non-cash items, which items are based on historical cost and varying depreciable lives. Since each of the Company's segments, its competitors and other investment opportunities available to noteholders all have differing historical cost structures, EBITDA is another measurement available to investors, particularly noteholders, to make investment decisions. EBITDA should not be considered as an alternative to earnings (loss) from continuing operations, net earnings (loss) or cash flow measures as determined in accordance with accounting principles generally accepted in the United States.

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The following table presents a reconciliation from net earnings (loss) to EBITDA and Adjusted EBITDA for the periods presented:

	Three Months Ended	
	Post-Recapitalization October 4, 2003	Pre-Recapitalization September 28, 2002
	<i>(Amounts in thousands)</i>	
	<i>(Unaudited)</i>	
Net earnings	\$ 30,100	\$ 16,700
Earnings from discontinued operations	---	(100)
Provision for income taxes	21,900	14,200
Investment income	(318)	(1,852)
Interest expense	<u>22,838</u>	<u>23,993</u>
Operating earnings	74,520	52,941
Depreciation expense	6,670	9,191
Amortization of intangible assets	3,055	1,467
Non cash charge of purchase price allocated to inventory	<u>323</u>	<u>---</u>
EBITDA	84,568	63,599
Expenses and charges arising from the Recapitalization	<u>---</u>	<u>1,000</u>
Adjusted EBITDA	<u>\$ 84,568</u>	<u>\$ 64,599</u>

	For the Periods		
	Post- Recapitalization	Pre-Recapitalization	
	Jan. 10, 2003 - Oct. 4, 2003	Jan. 1, 2003 - Jan. 9, 2003	Jan. 1, 2002 - Sept. 28, 2002
	<i>(Amounts in thousands)</i>		
	<i>(Unaudited)</i>		
Net earnings (loss)	\$ 62,500	\$ (64,900)	\$ 55,000
Earnings from discontinued operations	---	---	(5,700)
Provision (benefit) for income taxes	43,200	(24,100)	35,700
Investment income	(1,077)	(121)	(5,508)
Interest expense	<u>71,039</u>	<u>2,288</u>	<u>72,383</u>
Operating earnings (loss)	175,662	(86,833)	151,875
Depreciation expense	19,406	831	28,146
Amortization of intangible assets	8,956	137	4,459
Non cash charge of purchase price allocated to inventory	<u>6,685</u>	<u>---</u>	<u>---</u>
EBITDA	210,709	(85,865)	184,480
Expenses and charges arising from the Recapitalization	<u>---</u>	<u>87,700</u>	<u>6,200</u>
Adjusted EBITDA	<u>\$ 210,709</u>	<u>\$ 1,835</u>	<u>\$ 190,680</u>

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The Company expects to meet its cash flow requirements through fiscal 2003 from cash generated from operations, existing cash and cash equivalents, and, if necessary, the utilization of the Company's Senior Secured Credit Facility and mortgage, capital lease or other financings. As of October 4, 2003, approximately \$27,900,000 of letters of credit had been issued as additional security for approximately \$27,300,000 of industrial revenue bonds and capital leases outstanding (included in notes, mortgage notes and obligations payable in the accompanying condensed consolidated balance sheet at October 4, 2003), relating to several of the Company's manufacturing facilities and approximately \$6,900,000 of letters of credit have been issued as additional security for certain of the Company's insurance programs.

In connection with the provisions of SFAS No. 141 and Push Down Accounting, the Company has recorded all pension liabilities for the Company's defined benefit retirement plans at their fair values based upon the accumulated projected benefit obligations determined by third party actuarial consultants. As a result, on January 9, 2003, the amount of the Company's accumulated projected benefit obligation was increased by approximately \$6,813,000 as compared to the amount recorded in its consolidated balance sheet prior to the Recapitalization. In addition, as discussed previously, the Company settled all obligations related to the Company's SERP in connection with the Recapitalization. Accordingly, as of January 10, 2003, the Company has recorded accrued pension liabilities of approximately \$60,000,000, which represent the estimated combined under funding of the Company's various pension plans. The Company's policy is to make annual contributions to the various pension plans in such amounts and at such times so as to meet at least the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The amount of under funding will change in future periods for a variety of factors including, among others, the actual performance of the various pension plan's investments and changes, if any, in actuarial assumptions resulting from changing external economic conditions. Consistent with many pension plans in the United States, the Company's various pension plans have been negatively impacted by the performance of the United States equity markets over the past several years and the decline in yields available in fixed income markets.

In connection with the provisions of SFAS No. 141 and Push Down Accounting, the Company has recorded all post retirement health benefit plan liabilities at their fair values based upon the accumulated projected benefit obligations determined by third party actuarial consultants. As a result, on January 9, 2003, the amount of the Company's accumulated projected benefit obligation was increased by approximately \$17,231,000 as compared to the amount recorded in its consolidated balance sheet prior to the Recapitalization. Accordingly, as of January 10, 2003, the Company has recorded accrued post retirement health liabilities of approximately \$35,000,000, which represents the current discounted amount of the remaining estimated amounts to be paid out under the Company's various post retirement health benefit plans. The Company's policy is to fund the costs associated with its various post retirement health benefit plans as they become due and there are no investments or other assets associated with these plans. Consistent with many post retirement health benefit plans in the United States, the Company's liabilities under these plans have been negatively impacted by rising medical costs in the United States and the decline in yields available in fixed income markets.

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The Company and its subsidiaries have entered into a number of operating lease obligations, purchase obligations and have guaranteed certain obligations of various third parties. No significant changes in these obligations have occurred since December 31, 2002. See the Company's annual report on Form 10-K, as filed with the SEC, at December 31, 2002 for amounts outstanding at December 31, 2002.

Unrestricted cash and cash equivalents decreased from approximately \$294,804,000 at December 31, 2002 to approximately \$121,026,000 at October 4, 2003. The Company has classified as restricted in the accompanying condensed consolidated balance sheet certain investments and marketable securities that are not fully available for use in its operations. At October 4, 2003, approximately \$2,839,000 (of which \$1,538,000 is included in current assets) of cash, investments and marketable securities is held primarily as collateral for insurance and letter of credit requirements.

Capital expenditures were approximately \$22,602,000 (of which approximately \$7,587,000 were non-cash capital lease additions) in the first nine months of 2003 compared to approximately \$16,009,000 in the first nine months of 2002. Capital expenditures were approximately \$28,500,000 for the year ended December 31, 2002 and are expected to be between \$40,000,000 and \$45,000,000 in 2003.

The Company's working capital and current ratio decreased from approximately \$451,085,000 and 2.5:1, respectively, at December 31, 2002 to approximately \$351,506,000 and 2.0:1, respectively, at October 4, 2003 principally as a result of changes in unrestricted cash and cash equivalents and the factors described below.

Accounts receivable increased approximately \$75,405,000 or approximately 33.4%, between December 31, 2002 and October 4, 2003, while net sales increased approximately \$118,324,000 or approximately 27.1% in the third quarter of 2003 as compared to the fourth quarter of 2002. The acquisition of Elan in the first quarter of 2003 contributed \$3,253,000 and \$7,210,000 to the increase in accounts receivable and net sales, respectively and the acquisition of SPC in the third quarter of 2003 contributed \$6,177,000 and \$9,657,000 to the increase in accounts receivable and net sales, respectively. The rate of change in accounts receivable in certain periods may be different than the rate of change in sales in such periods principally due to the timing of net sales. Increases or decreases in net sales near the end of any period generally result in significant changes in the amount of accounts receivable on the date of the balance sheet at the end of such period, as was the situation on October 4, 2003 as compared to December 31, 2002. The Company has not experienced any significant overall changes in credit terms, collection efforts, credit utilization or delinquency in accounts receivable in 2003.

Inventories increased approximately \$35,441,000 or approximately 20.2%, between December 31, 2002 and October 4, 2003. Approximately \$7,216,000 of the increase was as a result of the net remaining fair market value adjustment of inventories at October 4, 2003 arising from the Recapitalization. In addition, the acquisition of Elan and SPC contributed approximately \$4,678,000 and \$5,686,000, respectively, to the increase in inventories.

Accounts payable increased approximately \$23,689,000 or approximately 18.7%, between December 31, 2002 and October 4, 2003. The acquisition of Elan and SPC contributed approximately \$637,000 and \$1,788,000, respectively, to this increase.

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Changes in certain working capital accounts, as noted above, between December 31, 2002 and October 4, 2003, differ from the changes reflected in the Company's Condensed Consolidated Statement of Cash Flows for such period as a result of the specific items mentioned in the three preceding paragraphs and from other non-cash items, including among others, the effect of changes in foreign currency exchange rates.

Unrestricted cash and cash equivalents decreased approximately \$154,501,000 from December 31, 2002 to January 9, 2003 and decreased approximately \$19,277,000 from January 10, 2003 to October 4, 2003, principally as a result of the following:

	<u>Condensed Consolidated Cash Flows (*)</u>	
	<u>January 10, 2003 – October 4, 2003</u>	<u>January 1, 2003 – January 9, 2003</u>
Operating Activities:		
Cash flow from operations, net	\$ 135,520,000	\$ (22,304,000)
(Increase) decrease in accounts receivable, net	(61,940,000)	2,749,000
Increase in inventories	(12,202,000)	(3,444,000)
Decrease in prepaids and other current assets	861,000	204,000
Increase in accounts payable	14,915,000	957,000
(Decrease) increase in accrued expenses and taxes	(10,553,000)	10,648,000
Investing Activities:		
Net cash paid for acquisitions	(73,356,000)	---
Capital expenditures	(14,459,000)	(556,000)
Decrease (increase) in restricted cash and investments....	2,789,000	(48,000)
Financing Activities:		
Decrease in borrowings, net	(872,000)	(1,358,000)
Capital contribution from Nortek Holdings	1,000,000	4,603,000
Dividend paid and transfers to Nortek Holdings	---	(147,900,000)
Other, net	(980,000)	1,948,000
	<u>\$ (19,277,000)</u>	<u>\$ (154,501,000)</u>

(*) Summarized from the Company's Condensed Consolidated Statement of Cash Flows for the period January 1, 2003 to January 9, 2003 and the period January 10, 2003 to October 4, 2003. (See the Unaudited Financial Statements included elsewhere herein.)

The impact of changes in foreign currency exchange rates on cash was not material and has been included in Other, net.

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Inflation, Trends and General Considerations

The Company has evaluated and expects to continue to evaluate possible acquisition transactions and the possible dispositions of certain of its businesses on an ongoing basis and at any given time may be engaged in discussions or negotiations with respect to possible acquisitions or dispositions.

The Company's performance is dependent to a significant extent upon the levels of new residential construction, residential replacement and remodeling and non-residential construction, all of which are affected by such factors as interest rates, inflation, consumer confidence and unemployment.

The demand for the Company's products is seasonal, particularly in the Northeast and Midwest regions of the United States where inclement weather during the winter months usually reduces the level of building and remodeling activity in both the home improvement and new construction markets. The Company's lower sales levels usually occur during the first and fourth quarters. Since a high percentage of the Company's manufacturing overhead and operating expenses are relatively fixed throughout the year, operating income and net earnings tend to be lower in quarters with lower sales levels. In addition, the demand for cash to fund the working capital of the Company's subsidiaries is greater from late in the first quarter until early in the fourth quarter.

Market Risk

As discussed more specifically below, the Company is exposed to market risks related to changes in interest rates, foreign currencies and commodity pricing. The Company does not use derivative financial instruments, except on a limited basis, to hedge certain economic exposures. The Company does not enter into derivative financial instruments or other financial instruments for trading purposes.

There have been no significant changes in market risk from the December 31, 2002 disclosures included in the Company's annual report on Form 10-K.

A. Interest Rate Risk

The Company is exposed to market risk from changes in interest rates primarily through its investing and borrowing activities. In addition, the Company's ability to finance future acquisition transactions may be impacted if the Company is unable to obtain appropriate financing at acceptable interest rates.

The Company's investing strategy, to manage interest rate exposure, is to invest in short-term, highly liquid investments and marketable securities. Short-term investments primarily consist of federal agency discount notes, treasury bills and bank issued money market instruments with original maturities of 90 days or less.

The Company manages its borrowing exposure to changes in interest rates by optimizing the use of fixed rate debt with extended maturities. There have been no significant changes in interest rate risk from the December 31, 2002 disclosures included in the Company's annual report on Form 10-K.

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B. Foreign Currency Risk

Sales and earnings derived from international markets and net assets within international markets are subject to, among others, the risks of currency fluctuations primarily related to changes in the Euro, the Canadian Dollar and the British Pound. In the first nine months of 2003, the net impact of foreign currency changes was not material to the Company's financial condition or results of operations, but may not be indicative of future results. The impact of foreign currency changes related to translation resulted in an increase in stockholder's investment of approximately \$1,096,000 and \$13,499,000 for the periods January 1, 2003 to January 9, 2003 and January 10, 2003 to October 4, 2003, respectively. The Company manages its exposure to foreign currency exchange risk principally by trying to minimize the Company's net investment in foreign assets through the use of strategic short and long-term borrowings at the foreign subsidiary level. The Company generally does not enter into derivative financial instruments to manage foreign currency exposure. At October 4, 2003, the Company did not have any significant outstanding foreign currency hedging contracts.

C. Commodity Pricing Risk

The Company is subject to significant market risk with respect to the pricing of its principal raw materials, which include, among others, steel, copper, packaging material, plastics, resins, glass, wood and aluminum. If prices of these raw materials were to increase dramatically, the Company may not be able to pass such increases on to its customers and, as a result, gross margins could decline significantly. The Company manages its exposure to commodity pricing risk by continuing to diversify its product mix, strategic buying programs and vendor partnering.

The Company generally does not enter into derivative financial instruments to manage commodity pricing exposure. At October 4, 2003, the Company did not have any material outstanding commodity forward contracts.

On March 5, 2002, the United States government imposed tariffs and quotas on a wide range of steel imports for a three-year period. Many of the Company's products are made from steel or contain steel parts and the import tariffs impact certain of these purchases made by the Company. While the Company enters into contracts periodically which set the price of steel purchases, not all purchases are covered by contract and the contracts do not extend through the period the quotas and tariffs are imposed. Price changes resulting from the imposition of these quotas and tariffs began to have an unfavorable impact on gross profit, net earnings and cash flows of the Company over the second half of 2002. (See discussion in Results of Operations – Cost of products sold and operating earnings contained elsewhere herein.)

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Forward-Looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this discussion and throughout this document, words, such as “intends”, “plans”, “estimates”, “believes”, “anticipates” and “expects” or similar expressions are intended to identify forward-looking statements. These statements are based on the Company’s current plans and expectations and involve risks and uncertainties, over which the Company has no control, that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and operating results to differ include the availability and cost of certain raw materials, (including, among others, steel, copper, packaging materials, plastics, resins, glass, wood and aluminum) and purchased components, the level of domestic and foreign construction and remodeling activity affecting residential and commercial markets, interest rates, employment, inflation, foreign currency fluctuations, consumer spending levels, exposure to foreign economies, the rate of sales growth, price, and product and warranty liability claims. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Readers are also urged to carefully review and consider the various disclosures made by the Company, in this document, as well as the Company’s periodic reports on Forms 10-K, 10-Q and 8-K, filed with the Securities and Exchange Commission (“SEC”).

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chairman and Chief Executive Officer along with the Company’s Vice President and Chief Financial Officer and the Company’s Corporate Disclosure and Controls Committee, of the effectiveness of the Company’s disclosure controls and procedures as defined in Rule 13a-15e and 15d-15e under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Company’s Chairman and Chief Executive Officer along with the Company’s Vice President and Chief Financial Officer concluded that as of the end of such period, the Company’s disclosure controls and procedures are effective to ensure that information relating to the Company (including its consolidated subsidiaries) required to be disclosed in the Company’s periodic SEC filings is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms. There have been no significant changes in the Company’s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or that are reasonably likely to materially affect the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The items marked with an asterisk are filed herewith.

- * 31.1 Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- * 31.2 Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

August 7, 2003, Item 7 Financial Statements and Exhibits and Item 12 Results of Operations and Financial Condition

November 6, 2003, Item 7 Financial Statements and Exhibits and Item 12 Results of Operations and Financial Condition

November 6, 2003, Item 7 Financial Statements and Exhibits and Item 12 Results of Operations and Financial Condition

SIGNATURE

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

NORTEK, INC.
(Registrant)

/s/ Almon C. Hall
Almon C. Hall,
Vice President and Chief
Financial Officer

November 14, 2003