

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10 - K**

(Mark One)

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

For the fiscal year-ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-34697

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.)

500 Exchange Street, Providence, Rhode Island

(Address of principal executive offices)

02903-2699

(Zip Code)

Registrant's Telephone Number, including Area Code:

(401) 751-1600

Securities registered pursuant to Section 12(b) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of the last business day of the registrant's most recently completed second fiscal quarter (June 27, 2015), the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$822.8 million. The registrant's common stock trades on the NASDAQ Global Market under the symbol "NTK".

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of shares of the registrant's common stock par value \$0.01 per share outstanding as of February 22, 2016 was 16,401,089.

Documents incorporated by reference:

Portions of the registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains "forward-looking statements" about Nortek, Inc. ("Nortek") and its subsidiaries (the "Company"). When used in this discussion and throughout this document, words such as "intend," "plan," "estimate," "believe," "will," "could," "may," "seek," "anticipate," and "expect" or other similar expressions are intended to identify forward-looking statements, which are provided "safe harbor" protection under the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on our current plans and expectations and involve risks and uncertainties, over which we have 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: global economic conditions; the level of domestic and foreign construction and remodeling activity affecting residential and commercial markets; the availability and cost of certain raw materials and purchased components (including, among others, steel, copper, aluminum, electronics, motors, plastics, compressors, various chemicals and paints, and packaging); compliance with conflict minerals regulations; weather fluctuations; acquisition and integration risks; potential restructurings and business shutdowns; competition; foreign economic and political conditions; increased costs associated with regulatory compliance, including environmental, health and safety laws and the U.S. Foreign Corrupt Practices Act; foreign currency fluctuations; international business practices; maintaining good relationships with customers and suppliers; labor disruptions; product innovations and improvements; product and warranty liability claims; product recalls or reworks; employment levels; intellectual property rights; security breaches; maintaining pension plans; changes in tax law; and our ability to service our indebtedness. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise (except as required by applicable securities laws). All subsequent written and oral forward-looking statements attributable to us or persons acting on our 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 us in this annual report on Form 10-K, including without limitation statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the risk factors described in Item 1A, and any further disclosures we make on related subjects in our Form 10-Q and Form 8-K reports filed with the Securities and Exchange Commission (the "SEC").

WEBSITE ACCESS TO COMPANY REPORTS

Copies of our filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K) are available on our website, www.nortek.com, free of charge, as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC.

Investors and others should note that we announce material financial information to our investors using our investor relations website (investors.nortek.com), SEC filings, press releases, public conference calls and webcasts. We use these channels to communicate with our investors and the public about our company, our services and other issues. Nortek has used, and intends to continue to use, our investor relations website as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD. Further corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of business conduct and ethics, is also available on our investor relations website under the heading "Corporate Governance." The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

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PART I

ITEM 1. BUSINESS.

General

Nortek was founded in 1967 and is headquartered in Providence, Rhode Island. The Company is incorporated in the State of Delaware. In this annual report, “Nortek,” the “Company,” “we,” “us,” and “our” refer to Nortek, Inc. and its wholly-owned subsidiaries unless the context requires otherwise. This term is used for convenience only and is not intended as a precise description of any of the separate corporations, each of which manages its own affairs.

We are a global, diversified company whose many market-leading brands deliver broad capabilities and a wide array of innovative, technology-driven products and solutions for lifestyle improvement at home and at work. Our principal reporting segments are as follows:

- the Air Quality and Home Solutions ("AQH") segment,
- the Security and Control Solutions ("SCS") segment,
- the Ergonomic and Productivity Solutions ("ERG") segment,
- the Residential and Commercial HVAC ("RCH") segment, and
- the Custom and Commercial Air Solutions ("CAS") segment.

Through these segments, we manufacture and sell, primarily in the United States, Canada, and Europe, with additional manufacturing in China and Mexico, a wide variety of products principally for the remodeling and replacement markets, the residential and commercial new construction markets, and the personal and enterprise computer markets.

During the second quarter of 2015, we transferred the management of our UK commercial HVAC subsidiary from the CAS segment to the RCH segment. Additionally, during the second quarter of 2014, we changed the composition of our reporting segments to exclude the audio, video and control ("AVC") entities (formerly the "AV entities") from the SCS segment due to the Chief Operating Decision Maker's decision to operate each of these entities separately and manage each as a standalone segment. The AVC entities have been combined and have not been reported separately as these operating segments are individually not significant (the "AVC segments"). These entities were principally acquired at various times from 2003 to 2011. As a result of these changes, we have restated prior period segment disclosures to conform to the new composition.

Our performance is significantly impacted by the levels of residential replacement and remodeling activity, as well as the levels of residential and non-residential new construction. New residential and non-residential construction activity and, to a lesser extent, residential remodeling and replacement activity are affected by seasonality and cyclical factors such as interest rates, credit availability, inflation, consumer spending, employment levels and other macroeconomic factors, over which we have no control.

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Acquisitions

Nortek has implemented a strategy related to the process by which we evaluate and pursue strategic acquisitions. We plan to pursue acquisitions that are highly synergistic, have a strong strategic rationale, and meet or exceed internal financial hurdles; this focused approach to growth is expected to result in improved value creation for our stockholders.

Acquisitions are included in our consolidated results from the date of their acquisition. We made the following acquisitions in 2015:

Reporting Segment	Acquired Company	Acquisition Date	Primary Business of Acquired Company
ERG	Anthro Corporation ("Anthro")	January 21, 2015	Designs, develops, markets and manufactures technology furniture products
SCS	Nuvera, Inc. ("Nuvera") ⁽¹⁾	June 30, 2015	Designs mobile personal emergency response system ("PERS") products and cloud-based software platforms that enable a range of personal safety and health reporting services

(1) Relates to the mobile personal emergency response system and telehealth business of Nuvera.

See Note 2, "Acquisitions and Dispositions", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report for a detailed description of these acquisitions.

Our Business Segments

Segment	Primary Products	Major Brands⁽¹⁾	2015 Net Sales⁽²⁾⁽³⁾
AQH	Range hoods, exhaust fans, indoor air quality products, central vacuum systems	Broan®, NuTone®, Venmar®, Best™, Zephyr™	\$ 598.1
SCS	Security, automation, health and wellness, and access control equipment and systems	Linear®, 2GIG®, GTO/PRO®, Nuvera®, Mighty Mule®	427.3
ERG	Wall and desk mounts, carts, arms, workstations, stands, related accessories	Ergotron®, OmniMount®, Anthro™	350.2
RCH	Split-system and packaged air conditioners and heat pumps, air handlers, furnaces, unit and radiant heaters	Frigidaire®, Gibson®, Westinghouse®, Maytag®, Broan®, NuTone®, Intertherm®, Reznor®, Ambi-Rad®, Vapac®, Edenaire®	594.9
CAS	Custom-designed and engineered HVAC products, including air handlers and large rooftop cooling and heating systems	Mammoth®, Temtrol™, Ventrol™, Huntair®, Governair®, Cleanpak®, Fanwall®	426.3
AVC segments	Residential audio/video and home automation solutions, power conditioners, and professional video signal management solutions	Niles®, Elan®, SpeakerCraft®, Panamax®, Gefen®	129.3
Total			\$ 2,526.1

(1) Certain brands in the RCH Segment are used under license. See the detailed segment description below for details.

(2) Amounts in millions

(3) Additional financial information on our reporting segments, as well as foreign and domestic operations, is set forth in Note 9, "Segment Information and Concentration of Credit Risk", to the consolidated financial statements, Item 8 of Part II to this report.

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Air Quality and Home Solutions Segment

Our AQH segment primarily manufactures, markets, and distributes room and whole house ventilation products for the professional remodeling and replacement markets, residential new construction market, and do-it-yourself (“DIY”) market. Based on internal research and analysis, we estimate that approximately 69% to 73% of the segment's 2015 net sales were sold for remodeling and replacement applications versus residential new construction. We sell the products in our AQH segment to distributors and dealers of electrical and lighting products, kitchen and bath dealers, retail home centers and private label customers.

The principal products of the segment, which are sold under the Broan®, NuTone®, Venmar®, Best® and Zephyr® brand names, among others, are kitchen range hoods, exhaust fans (such as bath fans and fan, heater and light combination units), and indoor air quality products (such as air exchangers and heat or energy recovery ventilators). Based on internal research and industry knowledge, we believe that we are one of the world's largest suppliers of residential range hoods and exhaust fans and are the largest supplier of these products in North America, in each case, based on revenues. We also believe, based on internal research and industry knowledge, that we are one of the leading suppliers in North America of indoor air quality products, based on revenues.

A key component of our operating strategy for this segment is the introduction of new products and innovations, which capitalize on the strong brand names and the extensive distribution system of the segment's businesses. We believe that new product introductions and the breadth and depth of our product lines help us to maintain and improve our market position for our principal products. We compete with suppliers of competitive products primarily on the basis of quality, distribution, delivery and price. This segment's primary products compete with products supplied by many domestic and international suppliers in various markets. In the range hood market, this segment's primary global competitors are Elica Group, Faber S.p.A. and Cata Electrodomesticas S.L. This segment competes with Panasonic Corporation, among others, in the residential exhaust fan market.

Security and Control Solutions Segment

Our SCS segment manufactures and distributes a broad array of products designed to provide convenience and security primarily for residential applications. The principal product categories in this segment include security, automation, health and wellness, and access control equipment and systems.

The segment's security, automation and access control products include residential and certain commercial intrusion protection systems and components focused on wireless technology such as control panels, keypads and telephone entry systems, radio transmitters, window and door contacts, and lighting control devices as well as garage and gate operators. These products are sold under the Linear®, Numera®, 2GIG®, GoControl®, GTO/PRO®, and Mighty Mule® brands, as well as others including private labels for certain customers.

We sell the products in our SCS segment primarily to distributors, retailers and security and home services companies. Sales in this segment are primarily driven by replacement applications, new installations in existing properties and to a lesser extent new construction activity. In addition, a small portion of the sales in this segment is driven by sales to customers in the non-residential market.

The segment offers a broad array of products under widely-recognized brand names with various features and price points, which we believe allows it to expand its customer base and market presence. The segment's primary products compete with products supplied by many domestic and international suppliers in various markets. The segment competes with Honeywell Security (owned by Honeywell International, Inc.), Interlogix (owned by United Technologies Corporation), DSC (owned by Tyco International Ltd.), and Chamberlain Corporation, among others. The segment competes with suppliers of competitive products primarily on the basis of product innovation, quality, delivery and price.

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Ergonomic and Productivity Solutions Segment

Our ERG segment manufactures and distributes a broad array of innovative products that are designed to improve ergonomic and productivity for users of computers and digital displays. Products in this segment include computer workstations with ergonomic features including wall mounts, carts, arms, desk mounts, desks, and stands that attach to or support a variety of display devices such as notebook computers, computer monitors, and flat panel displays. Many of these products are offered with features that allow users to comfortably sit or stand while working at a computer. The segment also sells charging carts designed for notebook computers and tablet devices. These workstations support critical professional computing applications such as electronic medical records, digital imaging, and computerized learning environments.

These products are sold under the Ergotron®, OmniMount®, ErgotronHome™, and Anthro™ brand names, as well as certain original equipment manufacturer brand names in the personal computer and medical device industry. We sell the products in our ERG segment to distributors, retailers and original equipment manufacturers. Through these channels, the segment serves the healthcare, education, office, hospitality and home markets. Sales in this segment are primarily driven by personal computer and information technology spending and consumer purchases of flat-panel televisions as well as adoption and penetration rates of our products in key end markets.

The segment offers innovative products under its strong brands, and at competitive prices, which we believe allows it to expand its distribution and its relationships with original equipment manufacturer customers. Another key component of our strategy in this segment is the continuous introduction of new products that provide progressive workflow solutions for employee and student wellness and emerging digital technologies. Quality and customer service are also fundamentally important due to the critical nature of many of the applications the segment supports.

The segment's primary products compete with many domestic and international suppliers in various markets. The segment competes with Milestone AV Technologies (sells under the Chief and Sanus brand names), Humanscale, Bretford, and Varidesk, among others.

Residential and Commercial HVAC Segment

Our RCH segment principally manufactures and sells split-system and packaged air conditioners and heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets. In addition, this segment produces unit heaters, radiant heaters and rooftop HVAC products primarily for industrial and commercial applications. During 2015, we estimate that between approximately 85% and 89% of this segment's net sales were attributable to applications other than the residential new site-built construction market. For residential homes and certain commercial structures, the segment markets its products under the licensed brand names Frigidaire®, Tappan®, Philco®, Kelvinator®, Gibson®, Westinghouse® and Maytag®. The segment also supplies products to certain of its customers under the Broan®, NuTone® and certain private label brand names. Commercial products in the segment are principally sold under the Reznor®, Ambi-Rad®, Gaz Industrie™ and Mammoth® brand names. Our subsidiary, Eaton-Williams Group Limited, manufactures and markets custom and standard air conditioning and humidification equipment throughout Western Europe under the Vapac®, Cubit™, Edenaire™, and Moduce1™ brand names.

The segment sells residential HVAC products for use in residential homes primarily through independently owned distributors who sell to HVAC contractors. In 2015 and 2014, the segment opened several of its own distribution centers in certain markets where it had disproportionately low sales. Building on this distribution strategy, the segment acquired the HVAC distribution business of Phoenix Wholesale, Inc. in 2014. The segment now has twelve Company-owned distribution locations. In the residential HVAC market, the segment competes with, among others, Carrier Corporation (a subsidiary of United Technologies Corporation), Rheem Manufacturing Company, Lennox Industries, Inc., Trane, Inc. (a subsidiary of Ingersoll Rand Company), York by Johnson Controls, and Goodman Global, Inc. (a subsidiary of Daikin Industries, Ltd.). The segment also sells residential HVAC products outside of North America, primarily in Latin America. These sales outside of North America consist of not only the segment's manufactured products, but also products manufactured to specification by outside sources. The products are sold under the Westinghouse® licensed brand name, the segment's own Miller® brand name, as well as other private label brand names.

Within the residential market, we believe we are one of the largest suppliers of HVAC products for manufactured homes in the United States and Canada, based on revenues. In the manufactured housing market, the segment markets its products under the Intertherm® and Miller® brand names. The segment sells its manufactured housing products to builders of manufactured housing and, through distributors, to manufactured housing retailers and owners. The majority of our sales to manufactured housing builders are for furnaces, and in the aftermarket channel of distribution, we sell both new and replacement air conditioning units and heat

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pumps, as well as replacement furnaces. We believe that we have one major competitor in the manufactured housing furnace market, Johnson Controls, which markets its products primarily under the “Coleman” name. The segment competes with most major industry manufacturers in the manufactured housing air conditioning market.

Commercial products in this segment are primarily sold in North America and Europe through a combination of distributor partners and direct sales efforts. Principal end-use applications for this segment’s commercial HVAC products include warehouses, factories, restaurants, retail locations and institutional buildings. In addition to certain of the competitors listed above, the commercial portion of this segment competes with, among others, Lennox Industries, Inc., Modine Manufacturing Company, Mestek, Inc., and AAON, Inc.

The segment competes in its markets primarily on the basis of breadth and quality of its product line, distribution, product availability and price.

Custom and Commercial Air Solutions Segment

Our CAS segment designs, manufactures and sells custom HVAC products and systems, primarily in North America, for commercial and industrial applications for markets that include healthcare and educational facilities, offices and retail, manufacturing facilities, clean rooms, data centers, and government buildings. The principal products sold by this segment are customer air handlers, energy recovery systems, integrated operating room systems, and large rooftop cooling and heating products. The segment markets its commercial HVAC products under the brand names of Governair®, Mammoth®, Temtrol®, Venmar CES™, Ventrol®, Webco®, and Huntair®. For 2015, we estimate that between approximately 42% and 46% of this segment's sales came from replacement and retrofit activity, which typically is less cyclical than new construction activity and generally commands higher margins.

The segment specializes in custom-designed and engineered HVAC products and systems that meet the specific requirements of its customers and optimize total cost of ownership in ways that are often not possible with standard commercial equipment. As a result, the segment's custom equipment can be designed to match a customer's exact space, capacity and performance requirements. The segment's commercial HVAC products are marketed through independent manufacturers' representatives, as well as other sales, marketing and engineering professionals. The independent representatives are typically HVAC engineers, which is a significant factor in marketing the segment's products because of the design-intensive nature of the market segment in which the segment competes. The segment sells its HVAC products and systems to contractors, owners and developers of the full breadth of commercial and industrial buildings. The segment works to maintain strong relationships with design engineers, building owners, as well as the in-house engineers who are most likely to value the benefits and long-term cost efficiencies of its equipment.

We believe that we are among the largest suppliers of custom and engineered HVAC products in the United States. The segment's four largest competitors in this market are Carrier Corporation (a subsidiary of United Technologies Corporation), York by Johnson Controls, Daikin Applied (a subsidiary of Daikin Industries, Ltd.), and Trane, Inc. (a subsidiary of Ingersoll-Rand Company). The segment competes primarily on the basis of engineering support, quality, design, construction flexibility and lead times, and total installed system cost. We believe that our ability to produce equipment that meets the performance characteristics required by the particular product application provides us with an advantage in the marketplace.

Audio, Video and Control Solutions segments

Our AVC segments manufacture and markets a broad array of products and solutions primarily for the residential audio, video automation and control, as well as for commercial power management, control and signal management markets. The principal product categories in these segments are smart home control and automation equipment, residential distributed audio and video equipment (including amplifiers, architectural speakers and power conditioners, among other products), and commercial power sequencing and video signal distribution and management solutions.

The residential audio/video and home automation solutions include smart home automation systems, whole-house audio/video products, power conditioning and surge protection equipment (including remote energy management solutions), as well as certain accessories often used with these systems. The segment's home control and automation systems include software and hardware that facilitate the control of third-party residential smart-home subsystems such as home theater, whole-house audio, climate control, lighting, security and irrigation. Whole-house audio/video products include multi-room/multi-source controllers, amplifiers and architectural speakers among other products. Both the automation and whole-house audio/video sub-segments include control devices such as keypads, remote controls and volume controls. The power conditioning and surge protection equipment includes both the conditioning and surge protection hardware as well as software to remotely manage power delivered to connected devices.

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These products are sold under the Elan®, Niles®, SpeakerCraft®, Panamax®, Furman™, and Xantech® brand names, among others.

The segments' professional video signal management solutions allow conversion of video signals into various formats as well as the extension and transmission of video signals to multiple display screens. Professional power management solutions include power filtration, protection and management solutions. In some cases video signal management and power management solutions are used together. These products are often used in non-residential applications such as retail outlets, airports, casinos, houses of worship, live event venues, and command and control centers as well as certain residential applications and are sold under the Gefen® and Furman® brand names.

We sell the products through a global preferred distributor network as well as direct to dealers, professional installers, electronics retailers and original equipment manufacturers. The distributor network includes low voltage security channel distributors that stock speakers, light control solutions, power protection and management. Sales in the residential market are primarily driven by new construction, remodels in existing properties, and replacement applications. Sales in the commercial markets are driven by consultants and commercial specifiers to design and implement primarily audio and video protection and distribution in commercial organizations. For its direct dealers, the AVC segments provide a self-service portal enabling product purchases supported by product resources including training materials, product specifications and related information.

These segments offer its broad array of products under widely-recognized and market leading brands, which we believe will allow the businesses to expand their presence in both the residential and commercial installation markets. The segments' primary products compete with products supplied by many domestic and international suppliers in various markets. The segments compete with Crestron Electronics, Inc., AMX LLC (owned by Harman International Industries, Inc.), and Control4 Corporation, among others. The segments compete with suppliers of competitive products primarily on the basis of quality, distribution, delivery and price.

Manufacturing Facilities

The number of manufacturing facilities by segment at December 31, 2015 was as follows:

Segment	Number of Manufacturing Facilities
Air Quality and Home Solutions	10
Security and Control Solutions	2
Ergonomic and Productivity Solutions	4
Residential and Commercial HVAC	9
Custom and Commercial Air Solutions	6

Backlog

Backlog expected to be filled within the next twelve months was approximately \$309.6 million as of December 31, 2015 as compared to approximately \$366.4 million as of December 31, 2014. The decrease in backlog at December 31, 2015 as compared to December 31, 2014 was primarily due to increased backlog in 2014 relating to RCH due to pre-build orders which were fulfilled in 2015 associated with regulatory changes effective in January 2015, and a decrease in orders in the CAS segment due to the timing of orders and product mix.

Backlog is not regarded as a significant factor for operations where orders are generally for prompt delivery. While backlog stated for all periods is believed to be firm, as all orders are supported by either a purchase order or a letter of intent, the possibility of cancellations makes it difficult to assess the firmness of backlog with certainty, and therefore there can be no assurance that our backlog will result in actual revenues.

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Raw Materials and Components

We purchase raw materials and most components used in our various manufacturing processes. The principal raw materials and components we purchase are steel, copper, aluminum, electronics, motors, plastics, compressors, various chemicals and paints, and packaging.

The materials, molds and dies, subassemblies and components purchased from other manufacturers, and other materials and supplies used in our manufacturing processes have generally been available from a variety of sources. From time to time the cost and availability of raw materials is affected by the raw material demands of other industries, among other factors. Whenever practical, we establish multiple sources for the purchase of raw materials and components to achieve competitive pricing, ensure flexibility, and protect against supply disruption. When possible, we employ a company-wide procurement strategy designed to reduce the purchase price of raw materials and purchased components.

For reasons of quality assurance, scarcity or cost effectiveness, certain components and raw materials used in the manufacture of our products are available only from a limited number of suppliers. We have worked closely with our suppliers to develop contingency plans to assure continuity of supply while maintaining high quality and reliability, and in some cases, we have established long-term supply contracts with our suppliers. Due to the non-standardized nature of certain raw materials and components, we may not be able to quickly establish additional or replacement sources for certain components or materials. In the event that we are unable to obtain sufficient quantities of raw materials or components on commercially reasonable terms or in a timely manner, our ability to manufacture our products on a timely and cost-competitive basis may be compromised, which may have a material adverse effect on our business, financial condition and results of operations. To date, we have not experienced any material adverse effect on our financial condition or results of operations due to supplier limitations.

We are subject to significant market risk with respect to the pricing of the principal raw materials used to manufacture our products. If prices of these raw materials were to increase dramatically, we may not be able to pass such increases on to our customers and, as a result, gross margins could decline significantly.

Research and Development

Our research and development activities are principally for new product development. Research and development costs were approximately \$77.7 million, \$75.4 million and \$65.5 million for 2015, 2014 and 2013, respectively, and represented approximately 3.1%, 3.0% and 2.9% of consolidated net sales for 2015, 2014 and 2013, respectively.

Trademarks and Patents

We own or license numerous trademarks that we use in the marketing of our products. Certain of the trademarks we own are particularly important in the marketing of our products. We also hold numerous design and process patents, but no single patent is material to the overall conduct of our business. It is our policy to obtain and protect patents whenever such action would be beneficial to us.

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Environmental and Regulatory Matters

We are subject to numerous federal, state, local and foreign laws and regulations relating to protection of the environment, including those that impose limitations on the discharge of pollutants into the environment (land, air and water), establish standards for the use, treatment, storage and disposal of solid and hazardous materials and wastes, and govern the cleanup of contaminated sites. We believe that we are in substantial compliance with the material laws and regulations applicable to us. We are involved in current, and may become involved in future, remedial actions under federal and state environmental laws and regulations which impose liability on companies to clean up, or contribute to the cost of cleaning up, sites currently or formerly owned or operated by such companies or sites at which their hazardous wastes or materials were disposed of or released. Such claims may relate to properties or business lines acquired by us after a release has occurred. In other instances, we may be partially liable under law or contract to other parties that have acquired businesses or assets from us for past practices relating to hazardous materials or wastes. Expenditures for 2015, 2014 and 2013 to evaluate and remediate such sites were not material to our business, either individually or collectively. While we are able to reasonably estimate certain of our contingent losses, we are unable to estimate with certainty our range of reasonably possible losses in connection with identified or yet to be identified remedial actions due, among other reasons, to: (i) uncertainties surrounding the nature and application of current or future environmental regulations, (ii) our lack of information about additional sites where we may be identified as a potentially responsible party ("PRP"), (iii) the level of clean-up that may be required at specific sites and choices concerning the technologies to be applied in corrective actions and (iv) the time periods over which remediation may occur. Furthermore, since liability for site remediation may be joint and several, each PRP is potentially wholly liable for other PRPs that become insolvent or bankrupt. Thus, the solvency of other PRPs could directly affect our ultimate aggregate clean-up costs. In certain circumstances, our liability for clean-up costs may be covered in whole or in part by insurance or indemnification obligations of third parties.

Certain of our products must be designed and manufactured to meet various regulatory standards. We must continue to modify regulated products to meet applicable standards as such standards develop and become more stringent over time.

Internal Investigation and Compliance Matters

As previously reported, as part of our routine internal audit activities, we discovered certain questionable hospitality, gift and payment practices, and other expenses at our subsidiary, Linear Electronics (Shenzhen) Co. Ltd. ("Linear China"), which are inconsistent with our policies and raise concerns under the U.S. Foreign Corrupt Practices Act ("FCPA") and perhaps under other applicable anti-corruption laws. We conducted an internal investigation into these practices and payments with the assistance of outside counsel.

On January 7, 2015 and January 8, 2015, respectively, we voluntarily contacted the SEC and the U.S. Department of Justice ("DOJ") to advise both agencies of our internal investigation. We are cooperating with the SEC and DOJ investigations into these matters. We take these matters very seriously and are committed to conducting our business in compliance with all applicable laws. See "*Risk Factors*", Item 1A to Part I of this report and "*Legal Proceedings*", Item 3 to Part I of this report for additional information regarding our internal investigation of compliance with the FCPA.

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The number of full-time employees, and those covered by collective bargaining agreements, by segment at December 31, 2015 was as follows:

Segment	Approximate Number of Employees	Employees Covered by Collective Bargaining Agreements
Air Quality and Home Solutions ⁽¹⁾⁽²⁾	2,600	142
Security and Control Solutions	2,600	0
Ergonomic and Productivity Solutions	1,400	0
Residential and Commercial HVAC ⁽³⁾	2,500	123
Custom and Commercial Air Solutions ⁽⁴⁾	2,000	245
Audio, Video and Control Solutions	200	0
Corporate	100	0
	11,400	510

- (1) Due to continued restructuring at our Italian subsidiary, 66 employees have been excluded from "employees covered by collective bargaining agreements" in the above table as the union contract associated with this subsidiary has not been renewed. See Note 5, "Exit and Disposal Activities", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.
- (2) Collective bargaining agreement expires in 2020.
- (3) Approximately 13 employees are covered under a collective bargaining agreement that expired in 2015, the remaining 110 employees are covered under a collective bargaining agreement expiring in 2018.
- (4) Collective bargaining agreement expired on December 31, 2015.

We believe that our relationships with employees are satisfactory. A work stoppage at one of our facilities could cause us to lose sales and incur increased costs and could adversely affect our ability to meet customers' needs. As agreements expire and until negotiations are completed, we do not know whether we will be able to negotiate collective bargaining agreements on the same or more favorable terms as the current agreements, or at all, and do so without production interruptions, including labor stoppages. See "Risk Factors," Item 1A of Part I to this report.

Working Capital and Seasonality

The carrying of inventories to support customers and to permit prompt delivery of finished goods requires substantial working capital. Substantial working capital is also required to carry receivables. The demand for our products is seasonal, particularly in the Northeast and Midwest regions of the United States and in Canada 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. Certain of the product categories in the RCH segment are more seasonal in nature than our other businesses' product categories. As a result, the demand for working capital of our subsidiaries is greater from late in the first quarter until early in the fourth quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," Item 7 of Part II to this report.

In 2015, we substantially completed a comprehensive set of operational improvement initiatives which we began to implement in 2013. These initiatives, which were underway throughout 2013, 2014 and 2015 have resulted in improvements in efficiencies and reductions in operating costs and expenses, both in manufacturing processes and in administrative functions, and have helped to better align us with the markets we serve and to improve our overall competitiveness. As a result, in 2015, 2014, and 2013 we incurred additional costs to implement these initiatives, which included engaging additional outside resources, relocating manufacturing and distribution locations in addition to the facilities discussed above, retrofitting existing or building new facilities, reducing our work force, rationalizing or refreshing product lines, and other costs. The cost of developing and implementing these initiatives impacted the level of working capital in 2015, 2014, and 2013.

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ITEM 1A. RISK FACTORS.

This section describes the material risks associated with our business. Investors should carefully consider each of the risks described below, as well as the other information in this report and in our filings with the SEC. The occurrence of any of the following risks could individually or in the aggregate have a material adverse effect on our business, prospects, financial condition, results of operation or cash flow.

Risks Related to Our Business:

Our business is affected by global economic conditions.

Our results of operations are directly influenced by the conditions in the global economy. U.S. and foreign economies occasionally experience significant declines in employment, household wealth, property values, consumer spending and lending. Businesses, including Nortek and many of its customers, may face weakened demand for products and services, difficulty obtaining access to financing, increased funding costs and barriers to expanding operations. As a result, the economic environment may, among other things:

- create downward pressure on the pricing of our products;
- affect the collection of accounts receivable;
- increase the sales cycle for certain of our products;
- slow the adoption of new technology;
- adversely affect our customers, causing them to reduce spending and/or decrease utilization of our products;
- adversely affect our suppliers, which could disrupt our ability to produce our products; and
- limit our access to capital on terms acceptable to us.

Any of these conditions could have a material adverse effect on our business, results of operations, financial condition and/or liquidity.

Our business is dependent upon the levels of remodeling and replacement activity and new construction activity, which may be cyclical or seasonal, and have been negatively impacted by the economic downturn and the instability of the credit markets.

Critical factors affecting our future performance, including our level of sales, profitability and cash flows are the levels of residential and non-residential remodeling, replacement and construction activity. The level of new residential and non-residential construction activity and, to a lesser extent, the level of residential remodeling and replacement activity are affected by seasonality and cyclical factors such as interest rates, inflation, consumer spending, employment levels and other macroeconomic factors, over which we have no control. Any decline in economic activity as a result of these or other factors typically results in a decline in new construction and, to a lesser extent, residential remodeling and replacement purchases, which would result in a decrease in our sales, profitability and cash flows. Instability in the credit and financial markets, troubles in the mortgage market, the level of unemployment and the decline in home values could have a negative impact on residential new construction activity, consumer disposable income and spending on home remodeling and repair expenditures. These factors could have an adverse effect on our operating results.

The demand for our 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. Our lower sales levels usually occur during the first and fourth quarters. Since a high percentage of our 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 needs of our subsidiaries is greater from late in the first quarter until early in the fourth quarter.

See “*Management's Discussion and Analysis of Financial Condition and Results of Operations*”, Item 7 of Part II to this report for further information on industry factors and our 2016 outlook.

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Fluctuations in the cost or availability of raw materials and components and other related costs could have an adverse effect on our business.

We are dependent upon raw materials and purchased components, including, among others, steel, copper, aluminum, electronics, motors, plastics, compressors, various chemicals and paints, and packaging that we purchase from third parties. As a result, our results of operations, cash flows and financial condition may be adversely affected by increases in costs of raw materials or components, or by limited availability of these items. We have worked closely with our suppliers to develop contingency plans to assure continuity of supply while maintaining high quality and reliability, and in some cases, we have established long-term supply contracts with our suppliers. In addition, we generally do not hedge against our supply requirements. Accordingly, we may not be able to obtain raw materials and components from our current or alternative suppliers at reasonable prices in the future, or may not be able to obtain these items on the scale and within the time frames we require. Further, if our suppliers are unable to meet our supply requirements, we could experience supply interruptions and/or cost increases. If we are unable to find alternate suppliers or pass along these additional costs to our customers, these interruptions and/or cost increases could adversely affect our results of operations, cash flows and financial condition.

Sources of raw materials or component parts for certain of our operations may be dependent upon limited or sole sources of supply which may impact our ability to manufacture finished product. While we continually review alternative sources of supply, there can be no assurance that we will not face disruptions in sources of supply which could adversely affect our results of operations, cash flows and financial position.

Continued strategic sourcing initiatives and other improvements in manufacturing efficiency, as well as sales price increases, help to mitigate fluctuations in these costs. However, there can be no assurance that we will be able to offset any or all material or other cost increases in any future periods.

Compliance with regulations regarding the use of "conflict minerals" could limit the supply or sources of certain minerals used in the manufacturing of our products.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC promulgated rules for public companies to ascertain and disclose the use of "conflict minerals" (i.e., cassiterite, columbite-tantalite, wolframite, and gold) which are mined from the Democratic Republic of Congo and adjoining countries in their products. These rules require disclosure of conflict minerals that are necessary to the functionality or production of products manufactured or contracted to be manufactured by public companies. The rules require companies to perform due diligence and disclose through the issuance of a report whether or not their products contain certain "conflict minerals". We are required to conduct due diligence efforts and, as a result, incur additional costs. The rules could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products. The number of suppliers who provide conflict-free minerals may be limited, which could have an adverse effect on our ability to source these products in the future. In addition, costs attributable to compliance with the disclosure requirements of the rules, such as costs related to determining the source of certain minerals used in our products, have been incurred, will continue to be incurred and could be material. The costs of compliance, including those related to supply chain research, unexpected consequences to our reputation, the limited number of suppliers, and possible changes in the sourcing of these materials, could adversely affect our results from operations and cash flows.

Weather fluctuations may negatively impact our business.

Weather fluctuations may adversely affect our operating results and our ability to maintain sales volume. In our RCH segment, certain product categories may be adversely affected by unseasonably warm weather in the months of November to February and unseasonably cool weather in the months of May to August, which has the effect of diminishing customer demand for heating and air conditioning products. In all of our segments, adverse weather conditions at any time of the year may negatively affect overall levels of new construction and remodeling and replacement activity, which in turn may lead to a decrease in sales. Many of our operating expenses are fixed and cannot be reduced during periods of decreased demand for our products. Accordingly, our results of operations and cash flows will be negatively impacted in quarters with lower sales due to weather fluctuations.

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If we fail to identify suitable acquisition candidates or successfully integrate the businesses we have acquired or will acquire in the future, our business could be negatively impacted.

Historically, we have engaged in a significant number of acquisitions, and those acquisitions have contributed significantly to our growth in sales and operating results. However, we cannot provide assurance that we will continue to locate and secure acquisition candidates on terms and conditions that are acceptable to us. If we are unable to identify attractive acquisition candidates, our growth could be impaired. Acquisitions involve numerous risks, including:

- the difficulty and expense that we incur in connection with the acquisition, including those acquisitions that we pursue but do not ultimately consummate;
- the difficulty and expense that we incur in the subsequent integration of the operations of the acquired company into our operations;
- adverse accounting consequences of conforming the acquired company's accounting policies to our accounting policies;
- the difficulties and expense of developing, implementing and monitoring systems of internal controls at acquired companies, including disclosure controls and procedures and internal controls over financial reporting;
- the difficulty in operating acquired businesses;
- the diversion of management's attention from our other business concerns;
- the potential loss of customers or key employees of acquired companies;
- the impact on our financial condition due to the timing of the acquisition or the failure to meet operating expectations for the acquired business; and
- the assumption of unknown liabilities of the acquired company.

There is no assurance that any acquisition we have made or may make in the future will be successfully integrated into our on-going operations or that we will achieve any expected cost savings from any acquisition. If the operations of an acquired business do not meet expectations, our profitability and cash flows may be impaired and we may be required to restructure the acquired business or write-off the value of some or all of the assets of the acquired business.

See Note 2, "*Acquisitions and Dispositions*", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

We continue to evaluate potential restructurings, business shutdowns and integrations focused on improving future cash flows of the business.

While the restructuring initiatives which commenced in 2015 and prior have substantially been completed, we continue to evaluate potential restructurings, business shutdowns and integrations focused on improving future cash flows of the business. Restructurings, business shutdowns and integrations involve numerous risks in their implementation including unforeseen costs, business disruption, management distraction, and potential asset impairment, among others, and may be unsuccessful. In addition, restructurings of international operations may be more costly due to differing labor laws, business practices and governmental restrictions, processes and requirements.

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Our competitors have substantially greater resources and we face competitive risks that may negatively impact our business.

Our AQH and AVC segments compete with many domestic and international suppliers in various markets. We compete with suppliers of competitive products primarily on the basis of quality, distribution, delivery and price. Some of our competitors in these markets have greater financial and marketing resources than that of our AQH and AVC segments.

Our SCS and ERG segments compete with many domestic and international suppliers in various markets. We compete with suppliers of competitive products primarily on the basis of product innovation, quality, delivery and price. Some of our competitors in these markets have greater financial and marketing resources than that of our SCS and ERG segments.

Our RCH segment competes in its markets primarily on the basis of breadth and quality of its product line, distribution, product availability and price. Most of our residential HVAC competitors have greater financial and marketing resources and the products of certain of our competitors may enjoy greater brand awareness than the products in the segment.

Our CAS segment competes primarily on the basis of engineering support, quality, design and construction flexibility, and total installed system cost. Most of our competitors in the commercial HVAC market have greater financial and marketing resources and enjoy greater brand awareness than we enjoy.

Competitive factors could require us to reduce prices or increase spending on product development, marketing and sales, either of which could adversely affect our operating results.

Because we have substantial operations and sell our products outside the United States, we are subject to the economic and political conditions of the United States and foreign nations.

We have manufacturing facilities in several countries outside of the United States. In 2015, we sold products in over 100 countries other than the United States. Foreign net sales, which are attributed based upon the location of our subsidiary responsible for the sale, were approximately 16.0% and 16.5% of consolidated net sales for 2015 and 2014, respectively. Our foreign operations are subject to a number of risks and uncertainties, including the following:

- foreign governments may impose limitations on our ability to repatriate funds;
- foreign governments may impose withholding or other taxes on remittances and other payments to us, or the amount of any such taxes may increase;
- an outbreak or escalation of any insurrection, armed conflict or act of terrorism, or other forms of political, social or economic instability, may occur;
- natural disasters may occur, and local governments may have difficulties in responding to these events;
- the United States and foreign governments currently regulate import and export of our products and those of our suppliers and may impose additional limitations on imports or exports of our products or the products of our suppliers;
- foreign governments may nationalize foreign assets or engage in other forms of governmental protectionism;
- foreign governments may impose or increase investment barriers, customs or tariffs, or other restrictions affecting our business;
- development, implementation and monitoring of systems of internal controls of our international operations, including disclosure controls and procedures and internal controls over financial reporting, may be difficult and expensive; and
- labor cost inflation and changes in labor practices.

The occurrence of any of these conditions could disrupt our business in particular countries or regions of the world, or prevent us from conducting business in particular countries or regions, which could reduce sales and adversely affect profitability.

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Our foreign operations are subject to anti-corruption laws, including the U.S. Foreign Corrupt Practices Act, and any determination that the Company or any of its subsidiaries has violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

The U.S. Foreign Corrupt Practices Act (“FCPA”), the UK Bribery Act and similar worldwide anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials and others for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws. We operate in parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-corruption laws may conflict with local customs and practices. Despite our training and compliance programs, there can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by those of our employees or agents who violate our policies.

As discussed under “*Legal Proceedings*” Item 3, Part I of this report, we have conducted an internal investigation of certain transactions and payments in China that potentially implicate the FCPA and have informed the SEC and the DOJ of these matters and are fully cooperating with these agencies in their review.

At this time, we are unable to predict, what, if any, action may be taken by the DOJ or SEC or any penalties or remedial measures these agencies may seek, but intend to cooperate with both agencies. Any determination that our operations or activities are not in compliance with existing laws or regulations could result in the imposition of fines, civil and criminal penalties, and equitable remedies, including disgorgement or injunctive relief. The imposition of any of these sanctions or remedial measures could have a material adverse effect on our business.

Further detecting, investigating, and resolving these matters is expensive and consumes significant time and attention of the Company’s senior management. The Company could also face fines, sanctions and other penalties from authorities in the relevant foreign jurisdictions, including prohibition of the Company participating in or curtailment of business operations in those jurisdictions. Any proceedings that may result from this matter could harm relationships with existing customers, distributors and agents and our ability to obtain new customers and partners.

The European debt crisis could have a material adverse effect on our European operations.

The European debt crisis and related European financial restructuring efforts have contributed to instability in the global credit markets and may cause the value of the Euro to deteriorate. If global economic and market conditions, or economic conditions in Europe, the United States or other key markets become uncertain or deteriorate, the value of the Euro could decline and the credit market may weaken. The general financial instability in the stressed European countries could have a contagion effect on the region and contribute to the general instability and uncertainty in the European Union. If this were to occur, it could adversely affect our European customers and suppliers and in turn may have a materially adverse effect on our European business and results of operations.

Fluctuations in currency exchange rates could adversely affect our revenues, profitability and cash flows.

Our foreign operations expose us to fluctuations in currency exchange rates and currency devaluations. We report our financial results in U.S. dollars, but a portion of our sales and in certain instances our expenses are denominated in Euros, Canadian dollars, British Pound Sterling, Chinese Renminbi, Mexican Pesos and other foreign currencies. As a result, if the value of the U.S. dollar increases relative to the value of these currencies, our levels of revenue and potentially our profitability will decline since the translation of a certain number of other currencies into U.S. dollars for financial reporting purposes will represent fewer U.S. dollars. Conversely, if the value of the U.S. dollar decreases relative to the value of these currencies, our levels of revenue and potentially our profitability will increase since the translation of a certain number of other currencies into U.S. dollars for financial reporting purposes will represent additional U.S. dollars.

In certain instances, we enter into transactions that are denominated in a currency other than the U.S. dollar. At the date the transaction is recognized, each asset, liability, revenue, expense, gain or loss arising from the transaction is measured and recorded in U.S. dollars using the exchange rate in effect at that date. At each balance sheet date, recorded monetary balances denominated in a currency other than the U.S. dollar are adjusted to the U.S. dollar using the current exchange rate with gains or losses recorded in currency translation adjustment and other, net. In addition, in the case of sales to customers in certain locations, our sales are denominated in U.S. dollars, Euros, Canadian dollars, or British Pound Sterling but all or a substantial portion of our associated

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costs are denominated in a different currency. As a result, changes in the relative values of U.S. dollars, Euros, Canadian dollars, British Pound Sterling, and Chinese Renminbi and any such different currency will affect our profitability and cash flows.

Varying international business practices may adversely impact our business and reputation.

We currently purchase raw materials, components and finished products from various foreign suppliers. To the extent that any such foreign supplier utilizes labor or other practices that vary from those commonly accepted in the United States, our business and reputation could be adversely affected by any resulting litigation, negative publicity, political pressure, or otherwise.

A decline in our relations with key distributors and dealers, loss of major customers or failures or delays in collecting payments from major customers may negatively impact our business.

Our operations depend upon our ability to maintain relations with our independent distributors and dealers and we do not typically enter into long-term contracts with them. If our key distributors or dealers are unwilling to continue selling our products, or if any of them merge with or are purchased by a competitor, we could experience a decline in sales. If we are unable to replace such distributors or dealers or otherwise replace the resulting loss of sales, our business, results of operations and cash flows could be adversely affected. For 2015, approximately 53% of our consolidated net sales were made through our independent distributors and dealers, and our largest distributor or dealer accounted for approximately 4% of consolidated net sales for 2015.

In addition, the loss of one or more of our other major customers, or a substantial decrease in such customers' purchases from us, could have a material adverse effect on our results of operations and cash flows. Because we do not generally have binding long-term purchasing agreements with our customers, there can be no assurance that our existing customers will continue to purchase products from us. Our largest customer (other than a distributor or dealer) accounted for approximately 4% of consolidated net sales for each of 2015 and 2014, respectively.

Labor disruptions or cost increases could adversely affect our business.

A work stoppage at one of our facilities could cause us to lose sales, incur increased costs and adversely affect our ability to meet customers' needs. A plant shutdown or a substantial modification to employment terms (including the collective bargaining agreements affecting our unionized employees) could result in material gains or losses or the recognition of an asset impairment. As collective bargaining agreements expire and until negotiations are completed, it is not known whether we will be able to negotiate collective bargaining agreements on the same or more favorable terms as the current agreements, or at all, without production interruptions, including labor stoppages. At December 31, 2015, approximately 5% of our employees were unionized, and from time to time we experience union organizing efforts directed at our non-union employees. We may also experience labor cost increases or disruptions in our non-union facilities in circumstances where we must compete for employees with necessary skills and experience or in tight labor markets.

We must continue to innovate and improve our products to maintain our competitive advantage.

Our ability to maintain and grow our market share depends in part on the ability to continue to develop high quality, innovative products. An important part of our competitive strategy includes leveraging our distributor and dealer relationships and our existing brands to introduce new products. In addition, certain of our products must be designed and manufactured to meet various regulatory standards. We must continue to modify regulated products to meet applicable standards as such standards develop and become more stringent over time. We cannot assure you that our investments in product innovation and technological development will be sufficient or that we will be able to create and market new products to enable us to successfully compete with new products or technologies developed by our competitors or to meet heightened regulatory requirements in the future.

Changes in legislation or government regulations or policies could adversely affect our results of operations.

Our RCH and CAS segments could be directly impacted by changes in legislation or government regulations relating to changes in environmental and energy efficiency standards which may have a significant impact on the types of products that we or our competitors are permitted to develop and sell. Our inability or delay in developing or marketing products that match customer demand and that meet applicable environmental and efficiency standards could negatively impact our business. This may create an unsettled market that could impact demand and margins. The demand for our products and services could also be affected by the size and availability of tax incentives for purchasers of our products and services. Future legislation or regulations, including

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relating to environmental or efficiency matters, product certification, product liability, taxes, tax incentives and other matters, may impact the results of our operating segments and our consolidated results.

Certain of our operations and products are subject to environmental, health and safety laws and regulations, which may result in substantial compliance costs or otherwise adversely affect our business.

Our operations are subject to numerous federal, state, local and foreign laws and regulations relating to protection of the environment, including those that impose limitations on the discharge of pollutants into the air and water, establish standards for the use, treatment, storage and disposal of solid and hazardous materials and wastes, and govern the cleanup of contaminated sites. We have used and continue to use various substances in our products and manufacturing operations, and have generated and continue to generate wastes, which have been or may be deemed to be hazardous or dangerous. As such, our business is subject to and may be materially and adversely affected by compliance obligations and other liabilities under environmental, health and safety laws and regulations. These laws and regulations affect ongoing operations and require capital costs and operating expenditures in order to achieve and maintain compliance. For example, the United States and other countries have established programs for limiting the production, importation and use of certain ozone depleting chemicals, including hydrochlorofluorocarbons, a refrigerant used in our air conditioning and heat pump products. Some of these chemicals have been banned completely, and others have been phased out in the United States. Modifications to the design of our products have been made, and further modifications may be necessary, in order to utilize alternative refrigerants.

We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, as a result of violations of or liabilities under environmental laws.

We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, and third party property damage or personal injury claims, as a result of violations of or liabilities under environmental laws, or non-compliance with environmental permits required at our facilities. Certain environmental laws and regulations also impose liability, without regard to knowledge or fault, relating to the existence of contamination at or associated with properties used in our current and former operations, or those of our predecessors, or at locations to which current or former operations or those of our predecessors have shipped waste for disposal. Contaminants have been detected at certain of our former sites, and we have been named as a potentially responsible party at several third-party waste disposal sites. While we are not currently aware of any such sites as to which material outstanding claims or obligations exist, the discovery of additional contaminants or the imposition of additional cleanup obligations at these or other sites could result in significant liability. In addition, we cannot be certain that identification of presently unidentified environmental conditions, more vigorous enforcement by regulatory agencies, enactment of more stringent laws and regulations or other unanticipated events will not arise in the future and give rise to material environmental liabilities or an increase in compliance costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We face risks of litigation and liability claims on product liability, workers' compensation and other matters, the extent of which exposure can be difficult or impossible to estimate and which can negatively impact our business, financial condition, results of operations and cash flows.

We are subject to legal proceedings and claims arising out of our businesses that cover a wide range of matters, including contract and employment claims, product liability claims, which may involve lawsuits seeking class action status, warranty claims and claims for modification, adjustment or replacement of component parts of units sold. Product liability and other legal proceedings include those related to businesses we have acquired or properties we have previously owned or operated.

The development, manufacture, sale and use of our products involves risks of product liability claims, which may involve lawsuits seeking class action status, and warranty claims, including personal injury and property damage arising from fire, soot, mold and carbon monoxide. We currently carry insurance and maintain reserves for potential product liability claims. However, our insurance coverage may be inadequate if such claims do arise, and any liability not covered by insurance could have a material adverse effect on our business. The accounting for self-insured plans requires that significant judgments and estimates be made both with respect to the future liabilities to be paid for known claims, and incurred but not reported claims, as of the reporting date. To date, we have been able to obtain insurance in amounts we believe to be appropriate to cover such liability. However, our insurance premiums may increase in the future as a consequence of conditions in the insurance business generally, or our situation in particular. Any such increase could result in lower profits or cause us to reduce our insurance coverage. In addition, a future claim may be brought against us, which would have a material adverse effect on us. Any product liability claim may also include the imposition of punitive damages, the award of which, pursuant to certain state laws, may not be covered by insurance. Our product liability insurance policies have limits that, if exceeded, may result in material costs that would have an adverse effect on future profitability.

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In addition, warranty claims are generally not covered by our product liability insurance. Further, any product liability or warranty issues may adversely affect our reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on our business.

Product recalls or reworks may adversely affect our financial condition, results of operations and cash flows.

In the event we produce a product that is alleged to contain a design or manufacturing defect or that causes injury, we could incur costs relating to product recalls, litigation or liability claims, rework of the product, or government action. While we have undertaken several voluntary product recalls and reworks over the past several years and could do so in the future given the nature of our business, additional product recalls and/or reworks could result in material future costs. Many of our products, especially certain models of bath fans, range hoods, and residential furnaces and air conditioners, have a large installed base, and any recalls and/or reworks related to products with a large installed base could be particularly costly. The costs of product recalls or reworks are not generally covered by insurance. In addition, our reputation for safety and quality is essential to maintaining market share and protecting our brands. Any recalls or reworks may adversely affect our reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on our financial condition, results of operations and cash flows.

Our business operations could be significantly disrupted if we lost members of our management team or key employees.

Our success depends to a significant degree upon the continued contributions of our executive officers, key employees and consultants, both individually and as a group. Our future performance will be substantially dependent on our ability to retain and motivate them. The loss of the services of any of our executive officers, key employees or consultants could prevent us from successfully executing our business strategy.

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

We are highly dependent on certain of the brand names under which we sell our products. Failure to protect these brand names and other intellectual property rights or to prevent their unauthorized use by third parties could adversely affect our business. We seek to protect our intellectual property rights through a combination of trademark, copyright, patent and trade secret laws, as well as confidentiality agreements. These protections may not be adequate to prevent competitors from using our brand names and trademarks without authorization or from copying our products or developing products equivalent to or superior to ours. We license several brand names from third parties. In the event we fail to comply with the terms of these licenses, we could lose the right to use these brand names. In addition, we face the risk of claims that we are infringing third parties' intellectual property rights. Any such claim, even if it is without merit, could be expensive and time-consuming; could cause us to cease making, using, or selling certain products that incorporate the disputed intellectual property; could require us, if feasible, to redesign our products; could divert management time and attention; and could require us to enter into costly royalty or licensing arrangements.

Security breaches, improper disclosure of confidential company or personal data and other disruptions or misuse of information systems we rely upon could affect our ability to conduct our business effectively.

We, like most companies, may be subject to information technology system failures and network disruptions. These may be caused by delays or disruptions due to system updates, natural disasters, malicious attacks, accidents, power disruptions, telecommunication failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or similar events or disruptions. From time to time, we may implement enterprise resource planning systems or add applications to replace outdated systems and to operate more efficiently. Predictions regarding benefits resulting from the implementation of these projects are subject to uncertainties. We may not be able to successfully implement the projects without experiencing difficulties. In addition, any expected benefits of implementing projects might not be realized or the costs of implementation might outweigh the benefits realized.

We also outsource various information systems to third party service providers. Despite our security measures as well as those of our business partners and third-party service providers, the information systems we rely upon may be vulnerable to interruption or damage from computer hackings, computer viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination thereof. These information systems have been, and will likely continue to be, subject to attack. While we have implemented controls and taken other preventative actions to strengthen these systems against future attacks, we can give no assurance that these controls and preventative actions will be effective. Cybersecurity breaches of our information technology systems could result in the misappropriation or unauthorized disclosure of confidential information belonging to us or to our customers, partners, suppliers, or employees. Any breach of data

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security could result in a disruption of our services or improper disclosure of personal data or confidential information, which could harm our reputation, require us to expend resources to remedy such a security breach or defend against further attacks or subject us to liability under laws that protect personal data, resulting in increased operating costs or loss of revenue.

Volatility in the capital markets could necessitate increased cash contributions by us to our pension plans to maintain required levels of funding.

Volatility in the capital markets may have a significant impact on the funding status of our defined benefit pension plans. If the performance of the capital markets depresses the value of our defined benefit pension plan assets or increases the liabilities, our plans may be underfunded and we would have to make contributions to the pension plans. The amount of contributions we may be required to make to our pension plans in the future is uncertain and could be significant, which may have a material impact on our results of operations. See Note 13, "Pension, Profit Sharing and Other Post-Retirement Benefits", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Future tax law changes or the interpretation of existing tax laws may materially impact our effective income tax rate and the resolution of unrecognized tax benefits.

Our businesses are subject to income taxation in the U.S. as well as internationally. It is possible that future income tax legislation may be enacted that could have a material adverse impact on our worldwide income tax provision. We are routinely audited by income tax authorities in many jurisdictions. Although we believe that the recorded tax estimates are reasonable and appropriate, there are significant uncertainties in these estimates. As a result, the ultimate outcome from any audit could be materially different from amounts reflected in our income tax provisions and accruals. Future settlements of income tax audits may have a material adverse effect on earnings between the period of initial recognition of tax estimates in our financial statements and the point of ultimate tax audit settlement. See Note 8, "Income Taxes", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Risks Related to Our Indebtedness:

Our substantial debt could negatively impact our business, prevent us from fulfilling outstanding debt obligations and adversely affect our financial condition.

We have a substantial amount of debt. At December 31, 2015, we had approximately \$1,392.5 million of total debt outstanding, which is net of approximately \$3.4 million of unamortized debt premium and approximately \$4.9 million of unamortized debt discount. The terms of our outstanding debt, including our 8.5% Senior Notes due 2021 (the "8.5% Notes"), our \$300.0 million senior secured asset-based revolving credit facility (the "ABL Facility") and our senior secured term loans due 2020 ("Term Loan Facility") limit, but do not prohibit, us from incurring additional debt. If additional debt is added to current debt levels, the related risks described below could intensify.

Our substantial debt has or could have important adverse consequences, including the following:

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, refinancing indebtedness or other purposes could be impaired;
- a substantial portion of our cash flow from operations will be dedicated to paying principal and interest on our debt, thereby reducing funds available for expansion or other purposes;
- we are more leveraged than some of our competitors, which may result in a competitive disadvantage;
- we are vulnerable to interest rate increases, as certain of our borrowings, including those under the ABL Facility and the Term Loan Facility, are at variable rates;
- our failure to comply with the restrictions in our financing agreements would have a material adverse effect on us and our ability to meet our obligations under certain of our borrowings;
- we are more vulnerable to changes in general economic conditions than companies with less or no debt;
- we face limitations on our ability to make strategic acquisitions, invest in new products or capital assets or take advantage of business opportunities; and
- we are limited in our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate.

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See Note 4, "*Notes, Mortgage Notes and Obligations Payable*", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

The terms of our debt covenants impose restrictions on how we conduct our business and could limit our ability to raise additional funds.

The agreements that govern the terms of our debt, including the indenture that governs our 8.5% Notes and the credit agreements that govern our ABL Facility and Term Loan Facility, contain covenants that restrict our ability and the ability of our subsidiaries to, among other things:

- incur additional indebtedness;
- pay dividends or make other payment or distributions;
- make loans or investments;
- incur certain liens;
- enter into transactions with affiliates; and
- consolidate, merge or sell assets.

There are limitations on our ability to incur the full \$300.0 million of commitments under the ABL Facility. Availability is limited to the lesser of the borrowing base under the ABL Facility and \$300.0 million. As of February 22, 2016, we had approximately \$54.0 million in outstanding borrowings and approximately \$11.5 million in outstanding letters of credit under the ABL Facility. Based on the borrowing base calculations as of January 2015, at February 22, 2016, we had excess availability of approximately \$234.5 million under the ABL Facility and approximately \$204.5 million of excess availability before triggering the cash deposit requirements.

We will be required to deposit cash daily from our material deposit accounts (including all concentration accounts) into collection accounts maintained with the administrative agent under the ABL Facility, which will be used to repay outstanding loans and cash collateralized letters of credit, if (i) excess availability (as defined in the ABL Facility) falls below the greater of \$30.0 million or 10.0% of the U.S. and Canadian credit facilities or (ii) an event of default has occurred and is continuing. In addition, under the ABL Facility, if (i) excess availability falls below the greater of \$30.0 million or 12.5% of the U.S. and Canadian credit facilities or (ii) an event of default has occurred and is continuing, we will be required to satisfy and maintain a consolidated fixed charge coverage ratio measured on a trailing four quarter basis of not less than 1.0 to 1.0. Our ability to meet the required fixed charge coverage ratio can be affected by events beyond our control. A breach of any of these covenants could result in a default under the ABL Facility.

A breach of the covenants under the indenture that governs our 8.5% Notes or the credit agreements that govern the ABL Facility and the Term Loan Facility could result in an event of default under the applicable indenture or credit agreement. Such default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the ABL Facility would permit the lenders under the ABL Facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under our ABL Facility or Term Loan Facility, the lenders to the ABL Facility or the Term Loan Facility, respectively, could proceed against the collateral granted to them to secure that indebtedness. In the event our noteholders or lenders accelerate the repayment of our borrowings, we can provide no assurances that we and our subsidiaries would have sufficient assets to repay such indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns;
- unable to compete effectively or to take advantage of new business opportunities; or
- unable to grow in accordance with our plans.

See "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt Covenant Compliance*", Item 7 of Part II, to this report.

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We may be unable to generate sufficient cash to service all of our indebtedness and other liquidity requirements and may be forced to take other actions to satisfy such requirements, which may not be successful.

We will be required to repay all amounts outstanding under our ABL Facility in 2017, our Term Loan Facility in 2020, and our 8.5% Notes by 2021. At December 31, 2015, we had outstanding borrowings under these obligations of approximately \$1,385.9 million (net of unamortized debt premium of approximately \$3.4 million related to our 8.5% Notes and unamortized debt discount of approximately \$4.9 million related to our Term Loan Facility). We are currently obligated to make periodic interest payments under the 8.5% Notes and the ABL Facility, as well as make periodic interest and principal payments relating to the Term Loan Facility and other indebtedness of our subsidiaries. Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We expect that we will need to access the capital markets in the future in order to refinance all amounts outstanding under the 8.5% Notes, the ABL Facility and the Term Loan Facility, as we do not anticipate generating sufficient cash flow from operations to repay such amounts in full. We cannot assure you that funds will be available to us in the capital markets, together with cash generated from operations, in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances. We cannot assure you that any such actions, if necessary, could be effected on commercially reasonable terms or at all.

For further information regarding our yearly contractual obligations and sources of liquidity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Contractual Obligations", Item 7 of Part II, to this report.

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

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

Risks Related to Our Common Stock:

The trading volume in our common stock is less than that of similar public companies.

Although our common stock is listed for trading on the NASDAQ Global Market, the average daily trading volume in our common stock is generally less than that of many of our publicly traded competitors and other diversified manufacturing companies. Public companies such as us, with a relatively concentrated level of institutional shareholders, often have difficulty generating trading volume in their stock. This illiquidity can result in relative price discounts as compared to industry peers or to the stock's inherent value. It can also result in limited or no research analyst coverage, the absence of which may make it difficult for a company to establish and hold a market following. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control.

A lack of published research reports by securities or industry analysts may adversely impact the market price of our common stock.

Since our common stock began trading on the NASDAQ Global Market, there has been minimal coverage of Nortek by securities analysts. If we do not have analyst coverage of our common stock, we may lack visibility in the financial markets, which in turn could cause the market price of our common stock or its trading volume to decline.

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The price of our common stock could be volatile.

The overall market and the price of our common stock may fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including:

- quarterly fluctuations in our operating results;
- changes in investors' and analysts' perception of the business risks and conditions of our business;
- our ability to meet the earnings estimates and other performance expectations of financial analysts or investors;
- unfavorable commentary or downgrades of our stock by equity research analysts;
- fluctuations in the stock prices of our peer companies or in stock markets in general;
- our ability to comply with our debt covenants; and
- general economic or political conditions.

The market price for our common stock could also fall if our existing significant stockholders, or management, sell, or attempt to sell, large amounts of our common stock. Alternatively, if these stockholders do not trade their shares, our common stock could be thinly traded resulting in a wide spread of bid and ask prices for our common stock, which could reduce the trading volume of our common stock.

Our significant stockholder may exert significant influence over us. Their interests may not coincide with yours and they may make decisions with which you may disagree.

Funds affiliated with Ares Management LLC own, in the aggregate, approximately 38% of the voting power of our outstanding common stock as of February 22, 2016 and other stockholders also own significant portions of our common stock. As a result, these stockholders, acting individually or together, control substantially all matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions. In addition, this concentration of equity ownership may delay or prevent a change in control of our company and may make some transactions more difficult or impossible without the support of these stockholders. The interests of these stockholders may not always coincide with the interests of other stockholders. Accordingly, these stockholders could cause us to enter into transactions or agreements that you would not approve or make decisions with which you may disagree.

Further, our bylaws and certificate of incorporation allow a majority of our stockholders to take action by written consent, rather than at an annual or special meeting of stockholders. These provisions could result in a majority of our stockholders acting quickly to take action that may be opposed to management.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

Set forth below is a brief description of the location and general character of the principal administrative and manufacturing facilities and other material real properties of our continuing operations, all of which we consider to be in satisfactory repair as of December 31, 2015. All properties are owned, except for those indicated by an asterisk (*), which are leased under operating leases and those with a double asterisk (**), which are leased under capital leases.

Location	Description	Approximate Square Feet
Air Quality and Home Solutions:		
Hartford, Wisconsin	Manufacturing/Warehouse/Administrative	538,000 (2)
Hartford, Wisconsin	Warehouse	130,000 *
Mississauga, ONT, Canada	Manufacturing/Warehouse/Administrative	110,000
Cerreto D'Es, Italy	Manufacturing/Warehouse/Administrative	174,000
Drummondville, QUE, Canada	Manufacturing/Warehouse/Administrative	126,000
Drummondville, QUE, Canada	Manufacturing/Warehouse/Administrative	51,000 *
Chenjian, Huizhou, PRC	Manufacturing/Warehouse/Administrative/Other	198,000
Gliwice, Poland	Manufacturing/Warehouse/Administrative	162,000 (1)
Tecate, Baja California, Mexico	Manufacturing/Warehouse/Administrative	204,000 *
Alameda, California	Warehouse/Administrative	37,000 *
Security and Control Solutions:		
Xiang, Bao An County, Shenzhen, PRC	Manufacturing/Warehouse/Administrative/Other	326,000 *
Chaiwan, Hong Kong	Administrative	13,000 *
Carlsbad, California	Warehouse/Administrative	86,000 *
Grand Rapids, Michigan	Manufacturing/Warehouse/Administrative	89,000 *
Tallahassee, Florida	Warehouse/Administrative	71,000 (2)
Seattle, Washington	Warehouse/Administrative	11,000 *
Ergonomic and Productivity Solutions:		
St. Paul, Minnesota	Manufacturing/Warehouse/Administrative	102,000 (2)
Dongguan City, Guangdong, PRC	Manufacturing/Warehouse/Administrative	399,000 *
Amersfoort, The Netherlands	Manufacturing/Warehouse/Administrative	20,000 *
Phoenix, Arizona	Warehouse/Administrative	16,000 *
Tualatin, Oregon	Manufacturing/Warehouse/Administrative	127,000 *
Residential and Commercial HVAC:		
O'Fallon, Missouri	Warehouse/Administrative	70,000 *
Boonville, Missouri	Manufacturing	250,000 (2)
Poplar Bluff, Missouri	Warehouse	725,000 **
Dyersburg, Tennessee	Manufacturing/Warehouse	368,000 **
Miami, Florida	Warehouse/Administrative	88,000 *
Lenexa, Kansas	Warehouse/Administrative	28,000 *
San Antonio, Texas	Warehouse	19,000 *
Englewood, Colorado	Warehouse/Administrative	21,000 *
Tucson, Arizona	Warehouse/Administrative	34,000 *
Tempe, Arizona	Warehouse/Administrative	30,000 *
Surprise, Arizona	Warehouse/Administrative	44,000 *
Show Low, Arizona	Warehouse/Administrative	24,000 *
Flagstaff, Arizona	Warehouse/Administrative	30,000 *
Houston, Texas	Warehouse	45,000 *

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Location	Description	Approximate Square Feet
Residential and Commercial HVAC (continued):		
Folkestone, Kent, United Kingdom	Warehouse/Administrative	18,000 *
Brierley Hill, West Midlands, United Kingdom	Manufacturing/Warehouse	110,000 *
Mirabel, France	Manufacturing/Warehouse/Administrative	25,000 *
Menen, Belgium	Manufacturing/Warehouse/Administrative	140,000 *
Mercer, Pennsylvania	Manufacturing/Warehouse/Administrative	126,000
Saltillo, Coahuila, Mexico	Manufacturing/Administrative	697,000 (3)
Monterrey, Nuevo Leon, Mexico	Manufacturing/Administrative	214,000 (3)
Edenbridge, Kent, United Kingdom	Administrative	41,000 *
Fenton, Stoke-on-Trent, United Kingdom	Manufacturing/Administrative	104,000 *
Phoenix, Arizona	Warehouse/Administrative	28,000 *
Newbern, Tennessee	Warehouse/Administrative	65,000 *
Quinpo, Shanghai	Administrative	95,000 *
Coahuila, Mexico	Warehouse	68,000 (3)
Custom and Commercial Air Solutions:		
St. Leonard d'Aston, QUE, Canada	Manufacturing/Administrative	95,000 *
Saskatoon, Saskatchewan, Canada	Warehouse/Administrative	59,000 *
Drummondville, QUE, Canada	Manufacturing/Warehouse/Administrative	82,000 *
Oklahoma City, Oklahoma	Manufacturing/Administrative	127,000 (2)
Oklahoma City, Oklahoma	Warehouse	23,000 *
Okarche, Oklahoma	Manufacturing/Warehouse/Administrative	228,000 (2)
Anjou, QUE, Canada	Manufacturing/Administrative	127,000 *
Tualatin, Oregon	Manufacturing/Warehouse/Administrative	315,000 *
Eden Prairie, Minnesota	Administrative	30,000 *
Shakopee, Minnesota	Warehouse	13,000 *
Audio, Video and Control Solutions:		
Petaluma, California	Warehouse/Administrative	40,000 *
Los Angeles, California	Warehouse/Administrative	28,000 *
Other:		
Providence, RI	Corporate Headquarters	33,000 *
Eastvale, California	Warehouse/Administrative	376,000 *
Olive Branch, Mississippi	Warehouse/Administrative	702,000 *

- (1) These facilities are pledged as security under various subsidiary debt agreements.
- (2) These facilities are pledged as first priority security under our Term Loan Facility and as second priority under our ABL Facility.
- (3) These facilities relate to our manufacturing operations in Mexico under certain arrangements with independent third parties in Mexico. See Note 1, "Summary of Significant Accounting Policies", to the consolidated financial statements, Item 8 of Part II to this report.

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ITEM 3. LEGAL PROCEEDINGS.

As previously reported, as part of our routine internal audit activities, we discovered certain questionable hospitality, gift and payment practices, and other expenses at our subsidiary, Linear Electronics (Shenzhen) Co. Ltd. (“Linear China”), which are inconsistent with our policies and raise concerns under the U.S. Foreign Corrupt Practices Act and perhaps under other applicable anti-corruption laws. We conducted an internal investigation into these practices and payments with the assistance of outside counsel.

On January 7, 2015 and January 8, 2015, respectively, we voluntarily contacted the SEC and the DOJ to advise both agencies of our internal investigation. We are cooperating with the SEC and DOJ investigations into these matters. We take these matters very seriously and are committed to conducting business in compliance with all applicable laws.

Based on information known at this time, we currently believe that the amount of the questionable expenses and payments is not material with respect to our consolidated financial condition or results of operations for the periods presented. However, at this time, we are unable to predict, what, if any, action may be taken by the DOJ or SEC or any penalties or remedial measures these agencies may seek, but intend to cooperate with both agencies. Any determination that our operations or activities are not in compliance with existing laws or regulations could result in the imposition of fines, civil and criminal penalties, and equitable remedies, including disgorgement or injunctive relief. We cannot reasonably estimate the potential liability, if any, related to these matters resulting from any proceedings that may be commenced by the SEC, the DOJ or any other governmental authorities. In the fiscal year ended December 31, 2015 and 2014, approximately \$2.3 million and \$0.8 million, respectively, was recorded for legal and other professional services incurred related to the internal investigation of this matter. We expect to incur additional costs relating to the investigation of this matter in 2016.

In addition, we are from time to time, involved in litigation relating to claims arising in the normal course of business, including a number of product liability lawsuits. We do not expect that any of these proceedings will have a material adverse effect, either individually or in the aggregate, on our financial position, results of operations, liquidity or competitive position. See Note 6, “*Commitments and Contingencies - Product Liability Contingencies*”, to the consolidated financial statements, Item 8 of Part II, which is incorporated herein by reference.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant

Pursuant to General Instruction G(3) to Form 10-K, the following description of our executive officers is included as an unnumbered item in Part I of this report in lieu of being included in our definitive proxy statement for our annual meeting of stockholders. Set forth below are the name, age, present title, and certain other information for each of our executive officers as of February 22, 2016. Each executive officer is appointed by our Board of Directors and holds his/her office until the earlier of his/her death, resignation, retirement, disqualification or removal.

<u>Name</u>	<u>Age</u>	<u>Positions with the Company</u>
Michael J. Clarke	61	President, Chief Executive Officer and Director
Kevin W. Donnelly	61	Senior Vice President, General Counsel and Secretary
Timothy J. Burling	57	Senior Vice President, Operational Finance
Jeffrey Mueller	48	Group President, Air Quality and Home Solutions
Michael O'Neal	60	President, Nortek Security and Control
David J. LaGrand	62	Group President, Residential and Commercial HVAC
Peter Segar	53	Group President, Ergonomic and Productivity Solutions
Mark DeVincent	51	Group President, Custom and Commercial Air Solutions

Mr. Clarke has been President and Chief Executive Officer and a director of the Company since joining us on December 30, 2011. From January 2006 until his appointment as our Chief Executive Officer, Mr. Clarke served as President, FlexInfrastructure and Group President of Integrated Network Solutions of Flextronics International, Ltd, a publicly traded provider of design and electronics manufacturing services to original equipment manufacturers ("Flextronics").

Each of Messrs. Donnelly, and LaGrand has served in the same or substantially similar executive positions with us for at least the past five years. Mr. Donnelly was an executive officer when we filed voluntary petitions in the Bankruptcy Court seeking relief under the provisions of chapter 11 of the Bankruptcy Code on October 21, 2009.

Mr. Burling was appointed Senior Vice President, Finance and Operational Excellence on March 5, 2014, and prior to that he was Vice President, Operational Finance since March 2012. From 2006 until his appointment as our Vice President, Operational Finance, he served as Vice President, Finance of Integrated Network Solutions of Flextronics.

Mr. Mueller has been Group President, Air Quality and Home Solutions since September 2014. Prior to his appointment as the Group President, Air Quality and Home Solutions, he served as President of Kohler Co.'s faucet businesses globally from 2009 to June 2013, and from June 2013 to August 2014, he served as Managing Director of Kohler Co. Kitchen and Bath, Latin Americas.

Mr. O'Neal has been President, Nortek Security and Control since March 2011. Prior to joining Nortek Security and Control, Mr. O'Neal was president of North American operations for Gibson Guitar, and was earlier CEO of several high-tech electronics corporations including Phillips Accessories and Peripherals and Gemini Industries.

Mr. Segar has been Group President, Ergonomic and Productivity Solutions since September 2013. Prior to his appointment as the Group President, Ergonomic and Productivity Solutions, he served as Interim President of Ergotron, Inc. ("Ergotron") from January 2013 to October 2013, he served as Ergotron Brand Products President from August 2010 to October 2013 and he served as Senior Vice President and Chief Technical Officer of Ergotron from September 2004 to August 2010. Mr. Segar also serves on the board of directors of Caringbridge.

Mr. DeVincent has been Group President, Custom and Commercial Air Solutions since February 2014. Prior to his appointment as the Group President, Custom and Commercial Air Solutions, he served as Vice President, Advanced Systems of Flextronics from March 2006 to May 2011 and from June 2011 to January 2014, he served as Senior Vice President & GM, Server & Storage of Flextronics.

NORTEK, INC. AND SUBSIDIARIES
December 31, 2015**PART II****ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

Our common stock trades on the NASDAQ Global Market ("NASDAQ") under the trading symbol "NTK". The following table sets forth the high and low sale prices for our common stock as reported by NASDAQ for the periods indicated:

2014 Quarter Ended	High	Low
March 29, 2014	\$ 83.00	\$ 70.10
June 28, 2014	\$ 91.78	\$ 79.13
September 27, 2014	\$ 92.30	\$ 73.24
December 31, 2014	\$ 85.67	\$ 70.73
2015 Quarter Ended	High	Low
March 28, 2015	\$ 88.59	\$ 74.02
June 27, 2015	\$ 89.92	\$ 78.01
September 26, 2015	\$ 92.96	\$ 64.38
December 31, 2015	\$ 67.25	\$ 41.02

Holdings

As of February 22, 2016, there were approximately 139 holders of record of our common stock and an unknown number of additional beneficial owners whose shares are held through brokerage firms or other institutions.

Dividends

We did not pay any cash dividends on our common stock in 2015 or 2014, and we do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Furthermore, the agreements that govern the terms of our debt, including the respective indenture that governs our 8.5% Notes, and the credit agreements that govern our ABL Facility and Term Loan Facility, restrict our ability to pay dividends. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Adequacy of Liquidity Sources*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt Covenant Compliance*", Item 7 of Part II of this report, for further information regarding restrictions on our ability to pay dividends. In addition, the declaration of any future cash dividends and, if declared, the amount of any such dividends will be subject to our financial condition, earnings, capital requirements, financial covenants and other contractual restrictions and to the discretion of our Board of Directors. As of December 31, 2015, we had the capacity to make certain payments, including dividends, of approximately \$102.9 million.

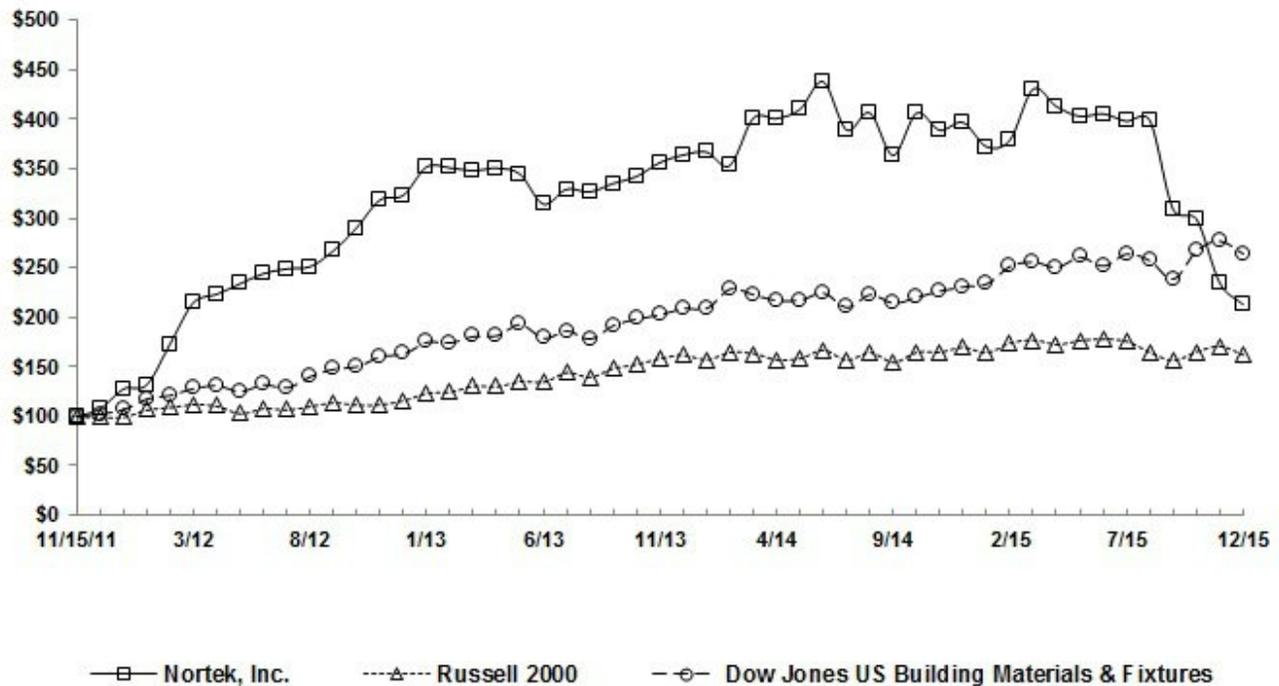
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Performance Graph

Set forth below is a graph comparing the cumulative total stockholder return on our common stock against the cumulative total return of the Russell 2000 Index and the Dow Jones US Building Materials & Fixtures Index for the period commencing November 15, 2011 (the first day our common stock began “when-issued” trading on the NASDAQ) through December 31, 2015. Index data was furnished by Dow Jones & Co. and Russell Investments Group. The graph assumes that \$100 was invested on November 15, 2011 in each of our common stock, the Russell 2000 Index, and the Dow Jones US Building Materials & Fixtures Index and that all dividends were reinvested.

COMPARISON OF 49 MONTH CUMULATIVE TOTAL RETURN

Among Nortek, Inc., the Russell 2000 Index
and the Dow Jones US Building Materials & Fixtures Index



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Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities during the fourth quarter of 2015.

NORTEK, INC. AND SUBSIDIARIES
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We do not currently have a publicly announced plan to repurchase shares. Below is a summary of our common stock repurchases during the fourth quarter ended December 31, 2015:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
September 27 - October 24, 2015	703	\$ 62.55	—	—
October 25 - November 21, 2015	29	\$ 61.35	—	—
November 22 - December 31, 2015	4,999	\$ 53.97	—	—

(1) Shares repurchased by us during the fourth quarter of 2015 from employees who surrendered shares to satisfy minimum statutory income tax withholding obligations arising in connection with the vesting of restricted stock awards, which we pay in cash to the appropriate taxing authorities on behalf of our employees.

(2) Amounts disclosed are rounded to the nearest two decimal places.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The table below summarizes our selected consolidated financial information as of and for the periods indicated. You should read the following selected consolidated financial data together with our consolidated financial statements, Item 8 of Part II, to this report, the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Liquidity and Capital Resources”, Item 7 of Part II, to this report, and the section entitled “Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters” included in Item 5 of Part II, to this report. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
<i>(In millions except per share amounts and ratios)</i>					
Consolidated Summary of Operations:					
Net sales	\$ 2,526.1	\$ 2,546.1	\$ 2,287.9	\$ 2,201.3	\$ 2,140.5
Impairment of long-lived assets and goodwill	1.6	80.4	4.3	—	—
Operating earnings	85.4	42.9	87.9	127.6	63.1
(Loss) earnings before (benefit) provision for income taxes	(30.1)	(65.0)	(11.4)	24.8	(76.2)
Net (loss) earnings	(26.7)	(45.6)	(8.3)	9.5	(55.9)
(Loss) earnings per share:					
Basic ⁽¹⁾	\$ (1.67)	\$ (2.92)	\$ (0.54)	\$ 0.63	\$ (3.70)
Diluted ⁽¹⁾	\$ (1.67)	\$ (2.92)	\$ (0.54)	\$ 0.61	\$ (3.70)
Financial Position and Other Financial Data:					
Unrestricted cash, investments and marketable securities	\$ 24.6	\$ 58.4	\$ 80.9	\$ 144.7	\$ 58.2
Working capital ⁽²⁾⁽³⁾	280.3	304.7	250.3	348.0	317.5
Total assets	2,143.9	2,209.1	1,990.9	1,888.1	1,941.9
Total debt —					
Current	7.4	6.9	3.5	3.1	33.4
Long-term	1,385.1	1,339.4	1,093.3	1,097.9	1,111.1
Current ratio ⁽⁴⁾	1.6:1	1.6:1	1.6:1	1.9:1	1.8:1
Debt to equity ratio ⁽⁵⁾	113.2:1	31.9:1	11.0:1	11.7:1	14.2:1
Depreciation and amortization expense, including non-cash interest ⁽⁶⁾	121.3	107.9	97.6	89.3	99.9
Capital expenditures ⁽⁷⁾⁽⁸⁾	44.8	38.9	43.8	24.1	21.1
Stockholders’ investment	12.3	42.2	99.9	94.2	80.4

- (1) See Note 11, “Earnings per Share”, to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.
- (2) Working capital is computed by subtracting current liabilities from current assets.
- (3) In 2015, we adopted ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, on a prospective basis, reclassifying all deferred tax assets and liabilities from current to long-term. See Note 8, “Income Taxes”, to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.
- (4) Current ratio is computed by dividing current assets by current liabilities.
- (5) Debt to equity ratio is computed by dividing total debt by total stockholders’ investment.
- (6) Includes an increase to cost of revenues for inventory acquired in business combinations of approximately \$0.5 million, \$2.2 million, \$3.3 million, \$0.9 million, and \$7.9 million for 2015, 2014, 2013, 2012, and 2011, respectively.
- (7) Excludes capital expenditures financed under capital leases of approximately \$0.5 million, \$0.1 million, \$0.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.
- (8) Does not include the addition of approximately \$31.5 million related to the 2013 construction of new facilities in Mexico. See Note 6, “Commitments and Contingencies”, to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the "Forward-Looking Statements" section set forth in Part I and the "Risk Factors" section set forth in Item 1A in this annual report on Form 10-K, and in any further disclosures we make in our reports filed with the SEC.

Executive Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Nortek, Inc., our operations, and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes contained in this report. Unless the context requires otherwise, the terms "Nortek," "Company," "we", and "our" in this MD&A refer to Nortek, Inc. and its wholly-owned subsidiaries.

Organization

We are a global, diversified company whose many market-leading brands deliver broad capabilities and a wide array of innovative, technology-driven products and solutions for lifestyle improvement at home and at work. Our principal reporting segments are as follows:

- the Air Quality and Home Solutions ("AQH") segment,
- the Security and Control Solutions ("SCS") segment,
- the Ergonomic and Productivity Solutions ("ERG") segment,
- the Residential and Commercial HVAC ("RCH") segment, and
- the Custom and Commercial Air Solutions ("CAS") segment.

Through these segments, we manufacture and sell, primarily in the United States, Canada, and Europe, with additional manufacturing in China and Mexico, a wide variety of products principally for the remodeling and replacement markets, the residential and commercial new construction markets, and the personal and enterprise computer markets.

During the second quarter of 2015, we transferred the management of our UK commercial HVAC subsidiary from the CAS segment to the RCH segment. Additionally, during the second quarter of 2014, we changed the composition of our reporting segments to exclude the audio, video and control ("AVC") entities (formerly the "AV entities") from the SCS segment due to the Chief Operating Decision Maker's decision to operate each of these entities separately and manage each as a standalone segment. The AVC entities have been combined and have not been reported separately as these operating segments are individually not significant (the "AVC segments"). These entities were principally acquired at various times from 2003 to 2011. As a result of these changes, we have restated prior period segment disclosures to conform to the new composition.

The AQH segment primarily manufactures and distributes room and whole house ventilation products for the professional remodeling and replacement markets, residential new construction market, and do-it-yourself market. The principal products sold by this segment include kitchen range hoods, exhaust fans (such as bath fans and fan, heater and light combination units), and indoor air quality products (such as air exchangers and heat energy recovery ventilators). Sales of our kitchen range hoods and exhaust fans within the AQH segment accounted for approximately 10.1% and 8.8%, respectively, of consolidated net sales for 2015, approximately 9.6% and 9.1%, respectively, of consolidated net sales in 2014 and approximately 10.7% and 9.8%, respectively, of consolidated net sales in 2013.

The SCS segment manufactures and distributes a broad array of products designed to provide convenience and security primarily for residential applications. The principal product categories in this segment include security, automation and access control equipment and systems. Sales of our security systems and components within the SCS segment accounted for approximately 12.7%, 12.8%, and 10.1% of consolidated net sales for 2015, 2014, and 2013, respectively.

The ERG segment manufactures and distributes a broad array of innovative products designed with ergonomic features including wall mounts, carts, arms, desk mounts, workstations, and stands that attach to or support a variety of display devices such as notebook

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computers, computer monitors, and flat panel displays. Sales of our digital display mounting and mobility products within the ERG segment accounted for approximately 13.9%, 11.6% and 12.0% of consolidated net sales in 2015, 2014 and 2013, respectively.

The RCH segment principally manufactures and sells split-system and packaged air conditioners and heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets. In addition, this segment produces unit heaters, radiant heaters and rooftop heating, ventilation and cooling products primarily for industrial and commercial applications. Sales of products sold in our RCH segment accounted for approximately 23.6%, 23.9% and 20.1% of consolidated net sales in 2015, 2014 and 2013, respectively.

The CAS segment manufactures and sells custom-designed and engineered HVAC products and systems, primarily in North America, for non-residential applications. The principal products sold by the segment are air handlers and large custom rooftop cooling and heating products. Sales of our commercial air handlers within the CAS segment accounted for approximately 13.9%, 13.8% and 14.6% of consolidated net sales in 2015, 2014 and 2013, respectively.

The AVC segments manufacture and distribute a broad array of products primarily for the residential audio/video and professional video signal management markets. The principal product categories in these segments include residential audio/video equipment (including architectural speakers and power conditioners, among other products), home control equipment, and professional video signal management solutions.

Significant events in 2015*Acquisitions*

We made the following acquisitions in 2015:

Reporting Segment	Acquired Company	Acquisition Date	Primary Business of Acquired Company
ERG	Anthro Corporation ("Anthro")	January 21, 2015	Designs, develops, markets and manufactures technology furniture products
SCS	Numera, Inc. ("Numera") ⁽¹⁾	June 30, 2015	Designs mobile personal emergency response system ("PERS") products and cloud-based software platforms that enable the creation of new safety and health monitoring services

(1) Relates to the mobile personal emergency response system and telehealth business of Numera.

See Note 2, "*Acquisitions and Dispositions*", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report for a detailed description of these acquisitions.

Logistical Issues in RCH segment

Early in the second quarter of 2015, our RCH segment transferred its warehousing and distribution functions to a third party logistics provider, an initiative included in our Operational Improvement Initiatives discussed in the *Liquidity and Capital Resources* section of this report. However, the distribution process was significantly hampered throughout most of the second quarter due to the third party logistics provider's inadequate staffing and processes, negatively impacting sales in the second quarter of 2015. Distribution activities were substantially transferred back to a facility owned and operated by the RCH segment prior to the end of the second quarter and we believe the distribution process for shipments began to return to historical shipping performance levels in the month of June. However, we believe those logistic issues had an ongoing impact on demand from many of our customers in the second half of 2015, particularly those who source the products we provide from multiple vendors. Warehousing and distribution costs, including freight, increased approximately \$19.2 million in 2015 as compared to 2014 partly as a result of this transfer of the warehousing and distribution functions.

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RCH Discontinued Production Lines

In connection with the transfer of the management of our UK commercial HVAC subsidiary from the CAS segment to the RCH segment discussed above, we discontinued production at one of the facilities operated by this subsidiary and discontinued certain product lines that were determined to be redundant, competitively disadvantaged or of limited strategic value.

CAS Segment Consolidation

As discussed in Note 5, "*Exit and Disposal Activities*", to the consolidated financial statements, Item 8 of Part II to this report, on May 4, 2015, the Board of Directors approved a restructuring plan designed to consolidate production activities in the North American and European operations of the CAS segment and to discontinue certain product lines which were determined to have limited strategic importance or to be competitively disadvantaged. The plan to consolidate production included the discontinuation of production in two North American facilities with production transferred to other CAS facilities in North America. As part of the plan, CAS manufacturing activities in Mexico were ceased and the operation of the manufacturing facility was transferred to the RCH segment to be used in that segment's production activities. We estimate that discontinued product lines will reduce the CAS segment's annual revenues by approximately \$25 million in 2016 as compared to sales levels in 2015. Excluding the costs associated with this restructuring plan, we estimate improvement in operating earnings in 2016 as compared to 2015 of approximately \$10.0 million to \$12.0 million.

The plan further included the consolidation of production and transfer of certain product lines of our UK commercial HVAC subsidiary from the CAS segment to the RCH segment. As discussed earlier in this section, we have restated prior period segment disclosures to conform to this change in our segment composition. The production consolidation and product line transfer was in part made possible by our acquisition of Reznor in 2014.

Core Brands and Gefen Consolidation

On July 28, 2015, the Board of Directors approved a restructuring plan designed to merge the operations of Gefen into Core Brands, including the exit from certain product lines. This restructuring plan commenced in the third quarter of 2015. Costs to be incurred in connection with the plan are expected to be in the range of \$8.0 million to \$9.0 million, comprised principally of employee separation costs and certain asset impairment charges, principally related to inventory write-offs associated with the products that will be discontinued.

2015 Debt Transactions

On April 2, 2015, we obtained an incremental \$265.0 million senior secured term loan pursuant to an amendment (the "Incremental Amendment") to our existing senior secured term loan facility due 2020 (the "Term Loan Facility") dated as of April 30, 2014, with substantially the same terms as the Term Loan Facility (the "Incremental Term Loan"). The net proceeds were used to redeem the 10% Senior Notes due 2018 (the "10% Notes") on May 4, 2015 at a redemption price of 105% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date. The redemption of the 10% Notes resulted in a pre-tax loss of approximately \$14.8 million during the second quarter of 2015.

Sale of TV One

In July 2015, we received an unsolicited inquiry regarding the purchase of our TV One businesses ("TV One") that were part of the AVC entities and we commenced an evaluation of the potential sale of TV One. On July 28, 2015, our Board of Directors approved the plan to sell the stock of TV One to a consortium of TV One's management on July 31, 2015. Under the terms of the agreement, we have no ongoing involvement or obligations with respect to TV One and we are not obligated to indemnify the purchasers in connection with this transaction. The Company recorded a loss on sale of assets of approximately \$2.9 million in the third quarter of 2015.

Other Matters

As previously reported, we discovered certain questionable hospitality, gift and payment practices, and other expenses at one of our subsidiaries in China. See "*- Liquidity and Capital Resources - Internal Investigation and Compliance Matters*" below.

NORTEK, INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****December 31, 2015*****Significant events in 2014****Acquisitions*

We made the following acquisitions in 2014:

Reporting Segment	Acquired Company	Acquisition Date	Primary Business of Acquired Company
RCH	Heating, ventilation and air conditioning business of Thomas & Betts Corporation ("Reznor")	April 30, 2014	Manufactures industrial and commercial HVAC products
RCH	Phoenix Wholesale, Inc.	October 8, 2014	Distributes HVAC products

Impairment of Long-lived Assets and Goodwill

During the second quarter of 2014, we determined that the significant under performance of our AVC companies through the first half of the year, along with a declining earnings forecast for the remainder of 2014 and beyond, represented an indicator of impairment related to the long-lived assets of these businesses. As a result, we performed the first step in the long-lived assets impairment test pursuant to ASC 360, "Property, Plant and Equipment" and compared the forecasted undiscounted cash flows for these businesses to their net assets. These cash flows were insufficient to recover the carrying value of these businesses. Based on the estimated fair values of the asset groups and the long-lived assets, we recorded an aggregate impairment charge of approximately \$80.4 million to write down the long-lived assets to their fair values. This charge was comprised of approximately \$74.7 million for intangible assets, primarily trademarks, customer relationships and developed technology, approximately \$4.4 million for goodwill and approximately \$1.3 million for property and equipment.

Second Quarter 2014 Debt Transactions

On April 30, 2014, we entered into the Term Loan Facility for \$350.0 million. The net proceeds from the Term Loan Facility were used to fund the acquisition of Reznor and to repay all of the outstanding secured debt under the Company's previous senior secured term loan due 2017, which had an aggregate principal amount outstanding of approximately \$93.0 million upon repayment. The redemption of the previous senior secured term loan facility resulted in a pre-tax loss of approximately \$2.3 million in 2014.

Significant events in 2013*Acquisitions*

We made the following acquisition in 2013:

Reporting Segment	Acquired Company	Acquisition Date	Primary Business of Acquired Company
SCS	2GIG Technologies, Inc. ("2GIG")	April 1, 2013	Designs and supplies residential security and home automation systems

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Basis of Presentation

We operate on a calendar year, and for our interim periods, operate on a 4-4-5 fiscal calendar, where each fiscal quarter is comprised of two 4-week periods and one 5-week period, with each week ending on a Saturday. Our fiscal year always begins on January 1 and ends on December 31. As a result, our first and fourth quarters may have more or less days included than a traditional 4-4-5 fiscal calendar, which consists of 91 days.

The remainder of this discussion provides greater detail of our operating results for each of our reporting segments. Our reporting segments offer a significant number of different products across a wide range of price points and numerous distribution channels that do not always allow meaningful quantitative analysis to be performed with respect to the effect on net sales of changes in units sold or the price per unit sold. However, whenever the underlying causes of material increases or decreases in consolidated net sales can be adequately analyzed and quantified, we attempt to make appropriate disclosure of such reasons, including changes in price, volume, and the mix of products sold. Overall, changes in cost of revenues 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 and material costs, as well as changes in productivity levels.

We report our financial results in accordance with U.S. GAAP. However, we believe that certain non-GAAP performance measures used in managing the business may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. Non-GAAP performance measures should be viewed in addition to, and not as an alternative for, our reported results. We provide net sales excluding the impact of foreign currency as a supplement to net sales as determined by U.S. GAAP in order to provide readers with a clearer basis to assess our results over time. This measure is considered a non-GAAP financial measure and is calculated by translating the current period net sales in functional currency to U.S. dollars using the prior year's exchange rate.

Industry Overview

Critical factors affecting our future performance, including our level of sales, profitability, and cash flows are the levels of residential remodeling and replacement activity, and new residential and non-residential construction activity. The level of new construction activity and the level of residential remodeling and replacement activity are affected by seasonality and cyclical factors such as interest rates, inflation, consumer spending, employment levels, and other macroeconomic factors over which we have no control. Any decline in economic activity as a result of these or other factors typically results in a decline in residential and non-residential new construction and, to a lesser extent, residential and non-residential remodeling and replacement spending, which would result in a decrease in our sales, profitability, and cash flows.

Instability in the credit and financial markets, troubles in the mortgage market, the level of unemployment, and the decline in home values could have a negative impact on residential and non-residential new construction activity, consumer disposable income, and spending on home remodeling and repairs. These factors could have an adverse effect on our operating results.

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Changes in key industry activity affecting our businesses in North America for 2015, 2014, and 2013 as compared to the prior year periods were as follows:

	Source of Data	% Increase (Decrease)		
		2015	2014	2013
Private residential construction spending	1	13 %	14 %	20 %
Total U.S. housing starts	1	11 %	9 %	19 %
Total Canadian housing starts	2	3 %	1 %	(13)%
New home sales	1	14 %	2 %	16 %
Existing home sales	3	7 %	(3)%	9 %
Residential improvement spending	1	9 %	11 %	5 %
Central air conditioning and heat pump shipments	4	(1)%	11 %	10 %
Gas furnace shipments	4	3 %	5 %	16 %
Private non-residential construction spending	1	12 %	11 %	4 %
Manufactured housing shipments	5	10 %	7 %	10 %
Residential fixed investment spending	6	9 %	2 %	10 %

Source of data:

- (1) U.S. Census Bureau
- (2) Canada Mortgage and Housing Corporation
- (3) National Association of Realtors
- (4) Air Conditioning, Heating and Refrigeration Institute
- (5) Institute for Building Technology and Safety
- (6) U.S. Bureau of Economic Analysis

In 2015, approximately 53% of consolidated net sales were made through independent distributors, dealers, wholesalers and similar channels, approximately 17% were to commercial HVAC markets, approximately 12% were to retailers (of which approximately 7% were sold to the four largest home center retailers), approximately 12% were private label sales, approximately 4% were to other commercial channels, and approximately 2% were to manufactured housing original equipment manufacturers and aftermarket dealers. Our largest distributor or dealer accounted for approximately 4% of consolidated net sales in 2015. Our largest customer (other than a distributor or dealer) accounted for approximately 4% of consolidated net sales for 2015.

Based on internal research and analysis, we estimate that approximately 56% to 60% of our consolidated 2015 net sales were related to the residential housing market. Our products that serve the residential housing market primarily include range hoods and bath fans sold by our AQH segment, central air conditioning and heating products sold by our RCH segment, security and access control products sold by our SCS segment, and certain of the audio/video distribution and control products sold by our AVC segments. We believe that approximately 18% to 22% of our consolidated 2015 net sales to the residential housing market were related to new construction activity.

Also based on internal research and analysis, we estimate that approximately 37% to 41% of our consolidated 2015 net sales were related to non-residential applications including healthcare and educational institutions. Our products that serve the non-residential market primarily include air handlers and other heating and cooling products sold by our CAS segment, unit heaters, radiant heaters and rooftop heating, ventilation and cooling products sold by our RCH segment, digital mounting and mobility products sold by our ERG segment, and certain of the audio/video distribution and control products sold by our AVC segments. We believe that approximately 32% to 36% of our consolidated 2015 net sales to the non-residential market were related to new construction activity.

The demand for certain of our products is seasonal, particularly in the Northeast and Midwest regions of the United States. Inclement weather during winter months usually reduces the level of building and remodeling activity in both home improvement and new construction markets, thereby reducing our sales levels during the first and fourth quarters.

We are subject to the effects of changing prices and the impact of inflation which could have a significant adverse effect on our results of operations. In some circumstances, market conditions or customer expectations may prevent us from increasing the prices

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of our products to offset the inflationary pressures that may increase costs in the future. We continually review the costs of our product lines and look for opportunities to help offset the rising costs of raw materials and transportation when possible.

During the past three years, the following have been our major purchases, expressed as a percentage of consolidated net sales, of raw materials and purchased components:

	For the Year Ended December 31,		
	2015	2014	2013
Electronics	13%	13%	11%
Electro mechanical, including motors and compressors	9%	11%	10%
Steel	6%	7%	7%
Metal components, including copper and aluminum	2%	3%	3%
Plastic components	2%	3%	3%
Packaging	2%	2%	2%

Outlook

For 2016, our expectation is that market demand for residential building products will be higher than the levels experienced in 2015. We also anticipate that residential and non-residential construction activity in the United States will continue to improve with increased activity in 2016 as compared to 2015.

Excluding the potential continued negative impact from unfavorable changes in foreign currency exchange rates, we expect to deliver overall net sales growth in 2016 despite planned lower sales related to certain restructuring projects as previously discussed. With planned increases in sales volume and benefits from restructuring actions, we also expect to achieve growth in operating earnings in 2016. We anticipate that a portion of this growth will be offset by normal increases in operating expenses as well as investments in the areas of product development and marketing.

Cost and Expense Components

Cost of revenues principally consists of the manufacturing costs, including materials, labor and overhead, of products sold. The most significant component of cost of revenues relates to the materials cost of our products. The cost of materials is affected by changes in key underlying commodity prices of these products, including steel, copper and aluminum, as well as overall changes in products. Cost of revenues also includes warranty fulfillment costs, third party services, equipment costs, equipment depreciation, and the wages and associated benefits that we pay related to performance of certain purchased services.

Selling, general and administrative expenses, net, consist of selling and marketing, general and administrative expenses, and research and development expenses. Personnel-related costs are the most significant component of each of these expense categories. Overall growth and expansion, including growth through acquisitions, could affect the number of non-manufacturing employees at any given period, and as a result, our selling, general and administrative expenses could fluctuate. We expect to continue to hire employees to support our growth for the foreseeable future. In addition, our operating expenses include the expenses related to certain of our warehouse and distribution facilities.

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Results of Operations

Net Sales

Net sales were approximately \$2,526.1 million, \$2,546.1 million, and \$2,287.9 million for 2015, 2014, and 2013, respectively. As discussed further below in our "*Segment Discussion*", the decrease in net sales for 2015 as compared to 2014 is primarily the result of a decline in the RCH, CAS, and AVC segments, partially offset by increased sales within the ERG segment. The increase in net sales for 2014 as compared to 2013 was primarily the result of increases within the RCH, SCS, and CAS segments, partially offset by a decline in sales in the AVC segments.

Cost of Revenues

Cost of revenues were approximately \$1,797.9 million, \$1,805.0 million, and \$1,624.6 million for 2015, 2014, and 2013, respectively. As a percentage of net sales, cost of revenues was approximately 71.2%, 70.9%, and 71.0% for 2015, 2014, and 2013, respectively. Exit and transformation costs recorded to cost of revenues during 2015, 2014, and 2013 was approximately \$28.5 million, \$17.0 million, and \$14.7 million, respectively.

Cost of revenues as a percentage of net sales increased in 2015 as compared to 2014 primarily due to an increase in exit and transformation costs, higher product liability expense, as well as changes in product and customer mix. This increase was partially offset by decreased warranty charges, as well as a decrease in certain commodity prices.

Cost of revenues as a percentage of net sales decreased slightly in 2014 as compared to 2013 and was primarily due to changes in the relative mix of products sold, as well as lower product liability expense. This decrease was partially offset by manufacturing inefficiencies due to certain exit and transformation activities.

Selling, General and Administrative Expense, net

Selling, general and administrative expense, net was approximately \$571.0 million, \$557.8 million, and \$519.8 million for 2015, 2014, and 2013, respectively. As a percentage of net sales, selling, general and administrative expense, net was approximately 22.6%, 21.9%, and 22.7% for 2015, 2014, and 2013, respectively. Exit and transformation costs recorded to selling, general and administrative expense, net during 2015, 2014, and 2013 were approximately \$22.8 million, \$13.4 million, and \$20.7 million, respectively.

Selling, general and administrative expense, net as a percentage of net sales increased in 2015 as compared to 2014 primarily as a result of increased exit and transformation costs, higher costs associated with warehousing and distribution, increased product development costs, as well as higher legal and other professional fees. The increase in selling, general and administrative expense, net as a percentage of net sales was partially offset by a decrease in net foreign exchange losses related to transactions, ongoing cost reduction efforts within the Company, and headcount reductions.

Selling, general and administrative expense, net as a percentage of net sales decreased slightly in 2014 as compared to 2013 primarily as a result of a decrease in exit and transformation costs coupled with an increase in net sales without a proportionate increase in SG&A due to the fixed nature of certain expenses. This decrease was partially offset by higher product development costs, as well as increased legal and professional fees.

Impairment of Long-lived Assets and Goodwill

As a result of certain restructuring initiatives that we commenced in the second quarter of 2015, we identified an indicator of impairment related to the long-lived assets of certain of the AVC entities due to declining operating results related to these companies. Based on review of the forecasted undiscounted cash flows over the remaining estimated useful life of the primary asset of the asset group, we determined that there was insufficient forecasted net positive cash flows to recover the net book value of property and equipment and such property and equipment had no material salvage value. As a result, we recorded an impairment charge of approximately \$1.2 million to reduce the carrying value of the property and equipment to zero.

Additionally, in the fourth quarter of 2015 we recorded an impairment charge of approximately \$0.4 million due to the change in estimated fair value less cost to sell related to one of our RCH segment's warehouse properties which was sold in January 2016.

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During the second quarter of 2014, we determined that the significant under performance of our AVC companies through the first half of the year, along with a declining earnings forecast for the remainder of 2014 and beyond, represented an indicator of impairment related to the long-lived assets of these businesses. As a result, we performed the first step in the long-lived assets impairment test pursuant to ASC 360, "Property, Plant and Equipment" and compared the forecasted undiscounted cash flows for these businesses to their net assets. These cash flows were insufficient to recover the carrying value of these businesses. Based on the estimated fair values of the asset groups and the long-lived assets, we recorded an aggregate impairment charge of approximately \$80.4 million to write down the long-lived assets to their fair values.

In 2013, we recorded a non-cash long-lived asset impairment charge of approximately \$4.3 million related to the write-down of property and equipment in connection with the exit in the first quarter of 2014 of a product line within the AQH segment.

Amortization of Intangible Assets

Amortization of intangible assets was approximately \$67.3 million, \$60.0 million, and \$51.3 million for 2015, 2014, and 2013, respectively.

The change in amortization of intangible assets in 2015 as compared to 2014 is primarily the result of the acquisition of Anthro and Numera in 2015 and the full year impact of the acquisitions of Reznor and Phoenix in 2014, coupled with a change in estimated useful lives relating to the AQH, RCH, SCS, and ERG reporting units. The impact of this change in estimated useful lives was approximately \$1.9 million of additional amortization expense in 2015 and represents a change in the estimated future annual amortization of approximately \$5.9 million.

The change in amortization of intangible assets in 2014 as compared to 2013 is primarily the result of the acquisition of Reznor and Phoenix in 2014 and the full year impact of the acquisition of 2GIG in 2013.

Net Interest Expense

Net interest expense was approximately \$100.7 million, \$105.6 million, and \$99.3 million for 2015, 2014, and 2013, respectively. Changes in net interest expense are primarily the result of changes in the average principal balances and weighted average interest rates of our outstanding debt due to the 2015 and 2014 debt transactions described previously.

Loss from Debt Retirement

On April 2, 2015, we obtained a \$265.0 million Incremental Term Loan. The net proceeds were used to redeem the 10% Notes on May 4, 2015 at a redemption price of 105% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date. The redemption of the 10% Notes resulted in a pre-tax loss of approximately \$14.8 million during the second quarter of 2015.

On April 30, 2014, we entered into the \$350.0 million Term Loan Facility. The net proceeds from the Term Loan Facility were used to fund the acquisition of Reznor and to repay all of the outstanding secured debt under the Company's previous senior secured term loan due 2017, which had an aggregate principal amount outstanding of approximately \$93.0 million upon repayment. The redemption of the previous senior secured term loan facility resulted in a pre-tax loss of approximately \$2.3 million in 2014.

Benefit from Income Taxes

The benefit from income taxes was approximately \$3.4 million, \$19.4 million, and \$3.1 million for 2015, 2014, and 2013, respectively. The effective income tax rate of a benefit of approximately 11.3% for 2015 differs from the United States federal statutory rate of 35% principally as a result of the impact of losses in certain jurisdictions that cannot be benefited, U.S. tax on unremitted earnings, and non-deductible expenses. The effective income tax rate of a benefit of approximately 29.8% for 2014 differs from the United States federal statutory rate of 35% principally as a result of non-deductible goodwill impairment, losses in certain jurisdictions that cannot be benefited and uncertain tax positions, partially offset by the impact of foreign rates and research tax credits. The effective income tax rate of a benefit of approximately 27.2% for 2013 differs from the United States federal statutory rate of 35% principally as a result of losses in certain foreign jurisdictions that cannot be benefited, partially offset by the settlement of an uncertain tax position during the first quarter of 2013 and reductions in reserves for uncertain tax positions as a

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result of the expiration of the statute of limitations on certain items including a \$2.1 million reserve reversal for uncertain tax positions recorded as part of acquisition accounting.

Segment Discussion

Our net sales by segment for 2015, 2014 and 2013 were as follows:

	For the year ended December 31,			Change			
				2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
	<i>(Dollar amounts in millions)</i>						
AQH	\$ 598.1	\$ 595.1	\$ 600.5	\$ 3.0	0.5 %	\$ (5.4)	(0.9)%
SCS	427.3	436.5	347.2	(9.2)	(2.1)	89.3	25.7
ERG	350.2	294.4	274.5	55.8	19.0	19.9	7.2
RCH	594.9	607.5	460.8	(12.6)	(2.1)	146.7	31.8
CAS	426.3	450.0	425.2	(23.7)	(5.3)	24.8	5.8
AVC	129.3	162.6	179.7	(33.3)	(20.5)	(17.1)	(9.5)
	<u>\$ 2,526.1</u>	<u>\$ 2,546.1</u>	<u>\$ 2,287.9</u>	<u>\$ (20.0)</u>	<u>(0.8)%</u>	<u>\$ 258.2</u>	<u>11.3 %</u>

Operating earnings (loss) by segment for 2015, 2014 and 2013 were as follows:

	For the year ended December 31,			Change			
				2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	\$	%	\$	%
	<i>(Dollar amounts in millions)</i>						
AQH	\$ 66.4	\$ 67.6	\$ 67.4	\$ (1.2)	(1.8)%	\$ 0.2	0.3 %
SCS	39.8	44.5	20.5	(4.7)	(10.6)	24.0	*
ERG	59.1	45.5	38.2	13.6	29.9	7.3	19.1
RCH	(18.4)	17.8	9.6	(36.2)	*	8.2	85.4
CAS	13.6	32.2	29.7	(18.6)	(57.8)	2.5	8.4
AVC	(20.8)	(19.2)	(12.9)	(1.6)	(8.3)	(6.3)	(48.8)
	<u>139.7</u>	<u>188.4</u>	<u>152.5</u>	<u>(48.7)</u>	<u>(25.8)</u>	<u>35.9</u>	<u>23.5</u>
Impairment of long-lived assets and goodwill	(1.6)	(80.4)	(4.3)	78.8	98.0	(76.1)	*
Unallocated	(52.7)	(65.1)	(60.3)	12.4	19.0	(4.8)	(8.0)
	<u>\$ 85.4</u>	<u>\$ 42.9</u>	<u>\$ 87.9</u>	<u>\$ 42.5</u>	<u>99.1 %</u>	<u>\$ (45.0)</u>	<u>(51.2)%</u>

* not meaningful or not applicable

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Year Ended December 31, 2015 as compared to the year ended December 31, 2014

AQH Segment

Net sales in the AQH segment increased approximately \$3.0 million, or 0.5%, in 2015 as compared to 2014 and were significantly impacted by currency movement. For 2015, changes in foreign currency exchange rates had a negative impact of approximately \$23.9 million on net sales in Canada, Europe, and other regions. Excluding the effect of changes in foreign currency exchange rates, net sales in North America, Europe, and other regions for 2015 increased approximately \$26.9 million as compared to 2014. The increase in net sales in North America for 2015 is primarily due to higher retail and appliance sales in the United States, and to a lesser extent higher wholesale channel sales. Net sales and operating earnings in the retail channel also reflect higher allowances recorded in the first quarter of 2014 related to in-store displays. The increase in Europe and other regions was mainly driven by higher sales in China.

Operating earnings decreased approximately \$1.2 million, or 1.8%, in 2015 as compared to 2014. This decline is primarily the result of additional severance charges recorded in 2015 related to restructuring plans at the Company's European range hood subsidiary of approximately \$2.0 million, an increase in product liability expense of approximately \$8.7 million, and increased legal fees of approximately \$2.0 million. This decline was partially offset by ongoing cost reduction efforts within the segment, lower prices related to the purchase of steel and motors, lower warranty costs, as well as a decrease in net foreign exchange losses related to transactions.

SCS Segment

Net sales in the SCS segment decreased approximately \$9.2 million, or 2.1%, in 2015 as compared to the same period of 2014. This decline was driven by decreased shipments of security and home automation products to certain OEM customers, as well as the impact of pricing changes to these same customers. This decline was partially offset by increased sales of security products to other customers during the period. The acquisition of Numera did not contribute any significant amount to net sales in 2015.

Operating earnings decreased approximately \$4.7 million, or 10.6%, in 2015 as compared to the same period of 2014. A change in product mix, coupled with increased legal and other professional fees of approximately \$2.7 million related primarily to the ongoing U.S. Foreign Corrupt Practices Act investigation, and increased product development costs of approximately \$3.4 million contributed to the decline in operating earnings in this segment. Additionally, the acquisition of Numera contributed an operating loss of approximately \$2.4 million in 2015. This decline was partially offset by a reduction in selling, general and administrative expense, net of approximately \$3.5 million related to a reduction in the fair value of contingent consideration, decreased warranty charges in 2015 as compared to 2014, primarily as a result of a 2014 product safety recall, and lower trade show expenses.

ERG Segment

Net sales in the ERG segment increased approximately \$55.8 million, or 19.0%, in 2015 as compared to the same period of 2014. The acquisition of Anthro in 2015 contributed approximately \$37.8 million to the increase in this segment. The remaining change in net sales for 2015 as compared to 2014 was primarily attributable to the net effect of an increase in Ergotron branded sales and a decline in retail sales. The increase in net sales for Ergotron branded products was primarily driven by volume increases in ergonomic sit-stand products, and device management carts, in the office, education and healthcare channels. Decreases in retail sales during 2015 are primarily the result of a decline in sales in Europe and Russia.

Operating earnings increased approximately \$13.6 million, or 29.9%, in 2015 as compared to the same period of 2014. The acquisition of Anthro contributed approximately \$1.2 million to operating earnings in 2015. The remaining increase is primarily the result of increased volume and the relative mix of products sold within the segment.

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RCH Segment

Net sales decreased approximately \$12.6 million, or 2.1%, in 2015 as compared to 2014. The incremental impact of the acquisitions of Reznor and Phoenix contributed approximately \$70.0 million to net sales during 2015 as compared to 2014. Excluding these acquisitions, net sales for 2015 decreased as compared to 2014 primarily as a result of lower volume, partially offset by price changes and changes in product mix. The decrease in volume is primarily the result of a shift in demand due to customer requests during the fourth quarter of 2014, due in part to regulatory changes, and shipping disruptions experienced in 2015 due to the logistical issues experienced primarily in the first half of 2015 as discussed previously.

Operating earnings decreased approximately \$36.2 million in 2015 as compared to 2014. The incremental impact of the acquisitions of Reznor and Phoenix contributed approximately \$2.2 million to operating earnings during 2015 as compared to 2014. The decrease in operating earnings reflects higher costs associated with freight, warehousing and distribution of approximately \$19.2 million, increased legal fees of approximately \$7.0 million, and increased costs associated with our company-owned distribution centers in select markets. An increase in amortization expense related to the acquisition of Reznor and Phoenix and a change in the estimated useful lives of intangible assets acquired also contributed to the decline in operating earnings. Changes in product mix helped to offset some of the decline in operating earnings.

CAS Segment

Net sales declined approximately \$23.7 million, or 5.3%, in 2015 as compared to 2014, and were negatively impacted by changes in foreign exchange rates of approximately \$2.6 million. This decline in net sales is primarily the result of lower sales to a major customer of approximately \$40.0 million because of the cyclical nature of the semiconductor industry in which this customer competes, as well as lower sales due to the discontinuation of certain product lines as discussed previously of approximately \$20.0 million. We have offset some of this decline with increased sales to other customers in the CAS segment primarily in the commercial office and healthcare end markets, among others. Backlog for CAS products expected to be filled within the next twelve months was approximately \$194.5 million and \$224.5 million at December 31, 2015 and 2014, respectively. Backlog related to our major customer noted above was approximately \$1.3 million and \$14.9 million at December 31, 2015 and 2014, respectively.

Operating earnings in the CAS segment decreased approximately \$18.6 million, or 57.8%, in 2015 as compared to 2014. This decline was primarily the result of lower sales volume, manufacturing inefficiencies experienced as a result of our continuing manufacturing rationalization and relocation initiatives, and severance and other charges related to the restructuring plan discussed previously. The decline in operating earnings was partially offset by lower selling expenses and ongoing cost reduction efforts.

AVC Segments

Net sales in the AVC segments decreased approximately \$33.3 million, or 20.5%, in 2015 as compared to 2014. The decrease in net sales was driven by the disposition of our TV One subsidiaries to a consortium of management as discussed previously, a non-recurring sale to a customer in 2014, as well as a decrease in volume.

Operating losses increased approximately \$1.6 million, or 8.3%, in 2015 as compared to 2014. This increase is primarily the result of severance, inventory and other charges related to the planned restructuring and merger of Gefen into Core Brands as discussed previously and additional inventory charges principally related to product discontinuation. During the second quarter of 2014, we wrote down intangible assets to their fair value of zero. As a result, the AVC segments did not have amortization expense during 2015, partially offsetting the increase in operating losses.

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Unallocated

Unallocated operating loss was approximately \$52.7 million and \$65.1 million for 2015 and 2014, respectively. The lower operating loss was the result of decreases in corporate general administrative expenses, costs of operational improvement initiatives, and acquisition costs, and were partially offset by executive transition employment and separation agreement costs and other fees, and increased legal and professional fees.

Year Ended December 31, 2014 as compared to the year ended December 31, 2013

AQH Segment

Net sales in the AQH segment decreased approximately \$5.4 million, or 0.9%, as compared to 2013. This decrease is primarily the result of a decrease in net sales in North America of approximately \$6.4 million, partially offset by an increase in net sales in Europe and other regions of approximately \$1.0 million. The decline in net sales in North America is primarily due to the exit of the medicine cabinet product line during the first quarter of 2014 of approximately \$11.3 million, and due to the result of the change in the exchange rate between the Canadian and US dollar during the year of approximately \$8.1 million. Excluding the impact of the exit from the medicine cabinet product line and changes in foreign exchange rates, net sales in North America increased approximately \$13.0 million with retail, wholesale and appliance sales all increasing compared to 2013.

Operating earnings increased approximately \$0.2 million, or 0.3%, for 2014 as compared to 2013. This increase is primarily the result of a decrease in product liability expense of approximately \$1.3 million and manufacturing efficiencies, partially offset by higher prices related to the purchase of steel and motors and changes in product mix.

SCS Segment

Net sales in the SCS segment increased approximately \$89.3 million, or 25.7%, in 2014 as compared to 2013, which was driven by increased shipments of security, access control and home automation products. The acquisition of 2GIG in April 2013 as well as organic growth contributed to the increase in net sales.

Operating earnings increased approximately \$24.0 million in 2014 as compared to 2013. This increase is primarily the result of an increase in net sales without a proportionate increase in certain costs due to their fixed nature, changes in product mix, as well as a decrease in warranty and inventory reserve charges of approximately \$1.3 million related to a product safety recall initiated in 2013 and a decrease in restructuring and transformation charges. Additionally, 2013 reflects an increase in cost of revenues of approximately \$3.1 million due to the recognition of inventory at the acquisition date fair value related to 2GIG. Increases in product development costs of approximately \$5.2 million in 2014 as compared to 2013 and an increase in amortization expense principally due to the full year impact of intangible assets acquired in connection with the 2GIG acquisition partially offset the increase in operating earnings.

ERG Segment

Net sales in the ERG segment for 2014 increased approximately \$19.9 million, or 7.2%, as compared to 2013, primarily attributable to an increase in Ergotron branded sales, partially offset by a decline in retail and original equipment manufacturer sales. The increase in net sales for Ergotron branded products was primarily driven by volume increases in ergonomic sit-stand, device management and healthcare carts. Decreases in sales to original equipment manufacturer customers and retail sales during 2014 are primarily the result of the global decline in desktop personal computer and television sales, as well as our transition away from lower gross margin business.

Operating earnings increased approximately \$7.3 million, or 19.1%, in 2014 as compared to 2013. This increase is primarily the result of changes in the relative mix of products sold, an increase in net sales without a proportionate increase in SG&A due to the fixed nature of certain expenses, as well as decreased freight costs.

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RCH Segment

Net sales increased approximately \$146.7 million, or 31.8%, in 2014 as compared to 2013. The acquisitions of Reznor and Phoenix contributed approximately \$121.0 million to net sales during 2014. The remaining increase in net sales for 2014 as compared to 2013 was primarily the result of increased private label sales to specific customers, higher industry demand, due in part to regulatory changes, and the impact of our company-owned distribution initiative as compared to 2013.

Operating earnings increased approximately \$8.2 million, or 85.4%, in 2014 as compared to 2013. The acquisitions of Reznor and Phoenix contributed approximately \$6.1 million to operating earnings in 2014. The remaining increase in operating earnings was primarily as a result of lower warranty related costs, decreased labor costs, favorable overhead absorption related to increased finished goods inventory at the end of 2014, and an increase in net sales without a proportionate increase costs due to the fixed nature of certain expenses. This increase was partially offset by increased amortization of intangible assets of approximately \$8.7 million primarily related to the acquisitions of Reznor and Phoenix, increased severance and other charges of approximately \$3.1 million related to certain exit and transformation activities, higher levels of expense for 2014 as compared to 2013 related to our company-owned distribution centers in select markets, and increased legal expenses of approximately \$0.7 million driven by increased activity primarily in the fourth quarter of 2014.

CAS Segment

Net sales in the CAS segment increased approximately \$24.8 million, or 5.8%, in 2014 as compared to 2013, and were negatively impacted by changes in foreign exchange rates of approximately \$7.9 million. Sales relating to a major customer increased approximately \$8.5 million during 2014 as compared to 2013. The remaining increase in net sales for 2014 primarily relates to increases in the data center and commercial office end markets, partially offset by a decline in sales in the healthcare end market.

Operating earnings increased approximately \$2.5 million, or 8.4%, in 2014 as compared to 2013. This increase is primarily the result of certain warranty charges recorded in 2013 of approximately \$6.5 million with no corresponding charge in 2014, as well as an increase in net sales without a proportionate increase in certain expenses due to their fixed nature. Offsetting these increases were manufacturing inefficiencies experienced during 2014 as a result of our continuing manufacturing rationalization and relocation initiatives within the segment, as well as a favorable benefit to bad debt expense in 2013 related to customer recoveries received with no corresponding benefit in 2014.

AVC Segments

Net sales decreased approximately \$17.1 million, or 9.5%, in 2014 as compared to 2013, while operating losses increased approximately \$6.3 million, or 48.8%, in 2014 as compared to 2013. Continued weakened demand for our audio, video and control products contributed to the decline in operating results for the entities included within the combined AVC segments. The decline in demand was driven, in part, by technology changes that affect certain product categories that the businesses compete in. This caused demand to shift from certain of our legacy products to newer technologies. Also impacting the operating performance of these businesses were sales discounts offered on certain legacy products and inefficiencies experienced in the combination of certain businesses as well as the shifting of logistics to a third party provider.

Unallocated

Unallocated operating losses increased approximately \$4.8 million, or 8.0%, in 2014 as compared to 2013. This increase is primarily the result of an increase in corporate general administrative costs primarily related to increased rent and office expenses, salary and other compensation related expenses, consulting, and other costs associated with the transition to an operational company. An increase in acquisition costs also contributed to the increase in operating losses in 2014 as compared to 2013. Partially offsetting this decline was a decrease in costs associated with operational improvement initiatives and a decrease in share based compensation.

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Other Financial Information

Other financial information consists of depreciation and amortization expense, non-cash impairment charges, share-based compensation expense, restructuring and transformation charges, and certain other charges. Other financial information by segment for 2015, 2014 and 2013 was as follows:

	For the year ended December 31, 2015							
	AQH	SCS	ERG	RCH	CAS	AVC	Other	Total
	<i>(Dollar amounts in millions)</i>							
Depreciation and amortization	\$ 24.8	\$ 18.5	\$ 22.9	\$ 30.8	13.9	\$ 4.8	\$ 2.5	\$ 118.2
Non-cash impairment charges	—	—	—	—	—	—	1.6	1.6
Share-based compensation expense	0.4	0.3	0.2	0.3	0.3	0.1	3.8	5.4
Restructuring and transformation charges	2.1	0.9	0.5	24.1	13.6	8.7	1.4	51.3
Other ⁽¹⁾	—	(1.5)	—	(1.0)	(0.3)	2.9	4.5	4.6

	For the year ended December 31, 2014							
	AQH	SCS	ERG	RCH	CAS	AVC	Other	Total
	<i>(Dollar amounts in millions)</i>							
Depreciation and amortization	\$ 24.6	\$ 17.3	\$ 17.5	\$ 24.5	12.4	\$ 6.6	\$ 2.5	\$ 105.4
Non-cash impairment charges	—	—	—	—	—	—	80.4	80.4
Share-based compensation expense	0.6	0.4	0.2	0.3	0.4	0.1	4.2	6.2
Restructuring and transformation charges	0.3	2.0	0.4	14.9	3.1	3.2	6.5	30.4
Other ⁽¹⁾	—	0.4	0.2	0.4	0.2	—	8.6	9.8

	For the year ended December 31, 2013							
	AQH	SCS	ERG	RCH	CAS	AVC	Other	Total
	<i>(Dollar amounts in millions)</i>							
Depreciation and amortization	\$ 27.4	\$ 18.1	\$ 17.7	\$ 10.3	11.9	\$ 8.7	\$ 1.1	\$ 95.2
Non-cash impairment charges	—	—	—	—	—	—	4.3	4.3
Share-based compensation expense	1.1	0.6	0.2	0.7	0.9	0.5	6.5	10.5
Restructuring and transformation charges	(0.2)	2.8	1.1	8.6	2.0	7.7	13.4	35.4
Other	—	1.8	2.1	(0.2)	0.2	1.8	2.2	7.9

(1) Refer to "Liquidity and Capital Resources - Consolidated Cash Flow and Adjusted Consolidated Cash Flow" for further description of "other" for 2015 and 2014.

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Foreign Net Sales and Operating Earnings

Net sales and earnings derived from international markets are subject to economic, political, and currency risks, among others. Foreign net sales and operating earnings (loss) from foreign operations are attributed based on the location of our subsidiary responsible for the sale.

Foreign net sales by region and segment for the periods presented were as follows:

	For the Year Ended December 31,					
	2015		2014		2013	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Canada:						
AQH	\$ 103.3	4.1%	\$ 116.7	4.6%	\$ 125.9	5.5%
SCS	4.4	0.2	3.3	0.1	1.0	—
CAS	120.5	4.8	110.6	4.3	100.7	4.4
	<u>228.2</u>	<u>9.0</u>	<u>230.6</u>	<u>9.1</u>	<u>227.6</u>	<u>9.9</u>
Europe:						
AQH	36.5	1.4	43.5	1.7	45.6	2.0
ERG	36.5	1.4	43.6	1.7	36.9	1.6
RCH	89.0	3.5	82.0	3.2	45.7	2.0
AVC	4.7	0.2	14.4	0.6	13.4	0.6
	<u>166.7</u>	<u>6.6</u>	<u>183.5</u>	<u>7.2</u>	<u>141.6</u>	<u>6.2</u>
Other Regions:						
AQH	8.3	0.3	5.7	0.2	2.6	0.1
ERG	—	—	—	—	1.6	0.1
AVC	—	—	1.5	0.1	3.1	0.1
	<u>8.3</u>	<u>0.3</u>	<u>7.2</u>	<u>0.3</u>	<u>7.3</u>	<u>0.3</u>
Total foreign net sales	<u>\$ 403.2</u>	<u>16.0%</u>	<u>\$ 421.3</u>	<u>16.5%</u>	<u>\$ 376.5</u>	<u>16.5%</u>

Net operating earnings of foreign operations, consisting primarily of the results of operations of our Canadian, European, and Asian subsidiaries, were approximately 19.3%, 11.9% and 11.7% of consolidated operating earnings (before allocations of corporate overhead costs and impairment charges) for 2015, 2014 and 2013, respectively.

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Liquidity and Capital Resources

Our primary liquidity needs are to fund general business requirements, including working capital requirements, capital expenditures, interest payments, and debt repayments. Our principal sources of liquidity are cash flows from operations, existing unrestricted cash and cash equivalents, and the use of borrowings under our \$300.0 million senior secured asset-based revolving credit facility which matures in 2017 ("ABL Facility"). The indentures related to our 8.5% Senior Notes due 2021 (the "8.5% Notes"), the credit agreements governing our ABL Facility and our Term Loan Facility due 2020, and other agreements governing our indebtedness and the indebtedness of our subsidiaries contain certain restrictive financial and operating covenants, including covenants that restrict our ability and the ability of our subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets, and take certain other corporate actions. See Note 4, "*Notes, Mortgage Notes and Obligations Payable*" to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report and "*- Debt Covenant Compliance*" below.

We believe that our unrestricted cash and cash equivalents as of December 31, 2015, our estimated cash flows from our subsidiaries, and borrowings available under our ABL Facility will be sufficient to fund our operations, anticipated capital expenditures, including potential acquisitions, and debt repayment obligations through at least the next twelve months based on our current operating plan.

We believe that our primary long-term capital requirements relate to servicing and repaying our indebtedness. At December 31, 2015, we had outstanding \$735.0 million in aggregate principal amount of the 8.5% Notes (excluding approximately \$3.4 million of unamortized debt premium), \$608.4 million in aggregate principal amount outstanding under the Term Loan Facility (excluding approximately \$4.9 million of unamortized debt discount), and borrowings under the ABL Facility of approximately \$44.0 million. In addition, we are currently obligated to make periodic interest payments under the 8.5% Notes and the ABL Facility, as well as make periodic interest and principal payments relating to the Term Loan Facility and other indebtedness of our subsidiaries. See "*-Contractual Obligations*" below for detail on our payment obligations under our indebtedness.

Our ability to make payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. Our ability to generate cash in the future will be dependent upon, among other things, the performance of our operating segments, and general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our ability to repay our outstanding indebtedness will also depend on our ability to access the capital markets in order to refinance all amounts outstanding under the 8.5% Notes, the ABL Facility and the Term Loan Facility, as we do not anticipate generating sufficient cash flow from operations to repay such amounts in full. There can be no assurance that funds will be available to us in the capital markets, together with cash generated from operations, in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Additionally, there can be no assurance that we will be able to refinance any of our indebtedness, including the 8.5% Notes, the ABL Facility and the Term Loan Facility, on commercially reasonable terms or at all. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances. There can be no assurance that any such actions, if necessary, could be effected on commercially reasonable terms or at all.

Operational Improvement Initiatives

In 2015, we substantially completed a comprehensive set of operational improvement initiatives which we began to implement in 2013. These initiatives, which were underway throughout 2013, 2014 and 2015 have resulted in improvements in efficiencies and reductions in operating costs and expenses, both in manufacturing processes and in administrative functions, and have helped to better align us with the markets we serve and to improve our overall competitiveness. Given the wide ranging impact of these initiatives, we have made significant incremental investments in staffing, research and development projects and specialized consulting resources, including engaging certain additional, third party resources with specialization in the areas of procurement, logistics, process optimization, and optimizing the design, pricing and cost of product offerings. During 2015, 2014 and 2013, we recorded approximately \$25.6 million, \$17.5 million and \$18.3 million, respectively, of operational improvement initiative costs, including investments in external resources as noted above. We estimate that these initiatives have resulted in approximately \$48 million to \$60 million of savings, which were substantially achieved by the end of 2015.

NORTEK, INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****December 31, 2015***Cash Flows and Working Capital*

Our cash flows from operating, investing, and financing activities for 2015 and 2014, as reflected in the consolidated statements of cash flows included elsewhere herein, are summarized in the table below:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
	<i>(Dollar Amounts in millions)</i>		
Net cash provided by operating activities	\$ 49.1	\$ 37.6	\$ 11.5
Net cash used in investing activities	(114.6)	(306.1)	191.5
Net cash provided by financing activities	31.7	246.0	(214.3)
Net change in unrestricted cash and cash equivalents	<u>\$ (33.8)</u>	<u>\$ (22.5)</u>	<u>\$ (11.3)</u>

Our working capital decreased from approximately \$304.7 million at December 31, 2014 to approximately \$280.3 million at December 31, 2015, while our current ratio remained unchanged at 1.6:1 at December 31, 2015 and 2014. In 2015, we adopted ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, on a prospective basis, reclassifying all deferred tax assets and liabilities from current to long-term. In 2014, our current deferred tax assets were approximately \$28.1 million. The remaining change in working capital is primarily the result of the net effect of the changes described below.

Net Cash Provided by Operating Activities

Net cash provided by operating activities primarily consists of net loss adjusted for certain non-cash items and the effect of changes in working capital and other activities.

The increase in net cash provided by operating activities for the year ended December 31, 2015 was the result of a decrease in cash used for working capital needs of approximately \$29.2 million partially offset by a reduction in net earnings (after the exclusion of non-cash items) of approximately \$16.2 million and a decrease in changes in other long-term assets, liabilities and other, net of approximately \$1.5 million.

Net cash provided by operating activities for the year ended December 31, 2015 was approximately \$49.1 million and consisted of non-cash items of approximately \$120.1 million partially offset by a net loss of approximately \$26.7 million and approximately \$44.3 million of cash used in working capital and other activities. The non-cash items primarily consisted of depreciation and amortization expense, share-based compensation expense, impairment charges, loss on debt retirement, deferred taxes and non-cash interest expense. Cash used in working capital and other activities consisted of an increase in accounts receivable of approximately \$20.6 million driven by higher sales in the fourth quarter of 2015, a decrease in accounts payable due to timing of payments, a decrease of approximately \$10.8 million in other long-term liabilities principally due to reductions in pension and deferred compensation liabilities and a decrease of approximately \$1.4 million in accrued expenses, taxes, and deferred revenue. These amounts were offset by cash provided by working capital and other activities consisting of a decrease of approximately \$2.4 million in inventory and a decrease of approximately \$1.3 million in prepaid and other current assets.

Net cash provided by operating activities for the year ended December 31, 2014 was approximately \$37.6 million and consisted of non-cash items of approximately \$155.2 million partially offset by a net loss of approximately \$45.6 million and approximately \$72.0 million of cash used in working capital and other activities. The non-cash items primarily consisted of goodwill and asset impairment charges, depreciation and amortization expense, share-based compensation expense, deferred taxes and non-cash interest expense. Cash used in working capital and other activities consisted of an increase in accounts receivable of approximately \$32.6 million driven by higher sales in the fourth quarter of 2014 principally related to the increased sales in the RCH segment as a result of sales from Reznor acquired in April 2014, as well as increased sales due to regulatory changes previously noted, an increase in inventory of approximately \$82.5 million principally driven by increased sales levels, a decrease in accrued expenses, taxes, and deferred revenue of approximately \$15.0 million primarily as a result of a decrease in customer deposits due to timing of customer shipments and a decrease in other long-term assets of approximately \$9.3 million principally as a result of insurance recoveries. These amounts were offset by cash provided by working capital and other activities consisting of an increase in accounts payable of approximately \$63.0 million due to higher inventory purchases and timing of payments and a decrease in prepaid and other current assets of approximately \$4.4 million.

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Net Cash Used in Investing Activities

Net cash used in investing activities principally relates to capital expenditures and net cash paid for business combinations and other asset acquisitions.

The decrease in net cash used in investing activities was primarily the net result of a decrease in cash paid for acquisitions, dispositions, and other assets of approximately \$197.2 million, partially offset by an increase in capital expenditures of approximately \$5.9 million. Capital expenditures were approximately \$44.8 million and \$38.9 million for 2015 and 2014, respectively. Capital expenditures are expected to be between approximately \$50 million and \$60 million in 2016.

Net cash used in investing activities was approximately \$114.6 million for the year ended December 31, 2015. During 2015, we made payments, net of cash acquired, of approximately \$49.5 million and approximately \$12.0 million for the acquisitions of Anthro and Numera, respectively. In addition, we made payments of approximately \$6.0 million for the acquisition of certain intangible and other assets. Capital expenditures were approximately \$44.8 million. Cash used in investing activities for 2015 was partially offset by proceeds from the sale of property and equipment of approximately \$1.1 million.

Cash used in investing activities was approximately \$306.1 million for the year ended December 31, 2014. During 2014, we made payments, net of cash acquired, of approximately \$255.6 million and approximately \$12.3 million for the acquisitions of Reznor and Phoenix, respectively. In addition, we incurred approximately \$38.9 million in capital expenditures. Cash used in investing activities for 2014 was partially offset by proceeds from the sale of property and equipment of approximately \$1.7 million.

Net Cash Provided by Financing Activities

Cash provided by financing activities is principally comprised of our proceeds from debt borrowings offset by debt payments.

The decrease in net cash provided by financing activities was primarily the result of higher debt repayments. Although overall proceeds from debt borrowings, net of fees paid, increased by approximately \$117.6 million principally driven by an increase in borrowings under the ABL, these increased proceeds were more than offset by payments of debt borrowings driven by the \$262.5 million redemption of the 10% Notes, including fees paid, in 2015 and higher repayments of borrowings under the ABL.

Net cash provided by financing activities was approximately \$31.7 million and \$246.0 million for the years ended December 31, 2015 and 2014, respectively. For 2015, net cash provided by financing activities primarily consisted of the proceeds from debt borrowings, net of fees paid of approximately \$713.6 million partially offset by debt repayments, including fees paid, of approximately \$680.1 million. For 2014, net cash provided by financing activities primarily consisted of proceeds from debt borrowings, net of fees paid, of approximately \$596.0 million partially offset by debt repayments of approximately \$351.1 million.

As discussed earlier, we generally use cash flows from operations and, where necessary, borrowings to finance our capital expenditures and strategic acquisitions, to meet the service requirements of existing indebtedness, and for working capital and other general corporate purposes.

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Outstanding Indebtedness

We had consolidated debt at December 31, 2015 of approximately \$1,392.5 million consisting of the following:

	<i>(Amounts in millions)</i>
8.5% Notes, net of premium	\$ 738.4
Term Loan Facility, net of discount	603.5
ABL Facility	44.0
Long-term notes and other indebtedness, net	6.1
Short-term bank obligations	0.5
	<u>\$ 1,392.5</u>

During 2015, we had a net increase in our debt of approximately \$46.2 million. This increase is primarily the result of a net increase in ABL borrowings of approximately \$44.0 million, a net increase in debt of approximately \$11.8 million related to the second quarter 2015 debt transactions noted above, partially offset by net payments relating to subsidiary debt of approximately \$7.1 million.

Contractual Obligations

The following is a summary of our estimated future cash obligations at December 31, 2015, including those of our subsidiaries, under debt obligations, interest expense, capital lease obligations, minimum annual rental obligations primarily for non-cancelable lease obligations (operating leases), acquisition agreements, purchase obligations, other long-term liabilities and other obligations. Also, see Note 4, "Notes, Mortgage Notes and Obligations Payable", and Note 6, "Commitments and Contingencies", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report:

	Payments Due by Period				Total
	Less than 1 year	2 - 3 Years	4 - 5 Years	More than 5 Years	
	<i>(Amounts in millions)</i>				
Notes and obligations payable ⁽¹⁾⁽²⁾	\$ 6.2	\$ 56.6	\$ 592.5	\$ 736.1	\$ 1,391.4
Interest payments ⁽³⁾⁽⁴⁾	93.4	179.5	170.3	45.2	488.4
Capital lease obligations	0.8	1.3	—	—	2.1
Operating lease obligations	25.1	42.0	20.8	13.0	100.9
Other purchase obligations ⁽⁵⁾	48.8	—	—	—	48.8
Other liabilities ⁽⁶⁾⁽⁷⁾⁽⁸⁾⁽⁹⁾⁽¹⁰⁾	7.5	10.5	4.3	31.8	54.1
Total	<u>\$ 181.8</u>	<u>\$ 289.9</u>	<u>\$ 787.9</u>	<u>\$ 826.1</u>	<u>\$ 2,085.7</u>

- (1) Excludes short term bank obligations of approximately \$0.5 million.
- (2) Excludes approximately \$3.4 million of unamortized debt premium and approximately \$4.9 million of unamortized debt discount.
- (3) Based upon interest rates in effect at December 31, 2015.
- (4) Includes annual interest payments related to the Mexico facilities as discussed below
- (5) Principally relate to non-cancelable purchase orders for inventory that are anticipated to be utilized in the normal course of operations.
- (6) Includes annual principal payments related to the Mexico facilities as discussed below.
- (7) Includes expected contributions to our defined benefit pension plan in 2016 of approximately \$6.0 million. This table does not include the long-term contractual obligations associated with our defined benefit and other post-retirement benefit plans at December 31, 2015. See Note 13, "Pension, Profit Sharing and Other Post-Retirement Benefits", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.
- (8) Other long-term liabilities, such as unrecognized tax benefits, product liability and warranty reserves, have been excluded from the table due to the uncertainty of the timing, and amount, of payments.
- (9) Excludes future contingent consideration we could be required to pay related to the acquisition of Numera that had an estimated fair value of approximately \$0.2 million as of December 31, 2015. See Note 2, "Acquisitions and Dispositions", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.
- (10) Excludes derivative financial liabilities which relate to foreign currency forward contracts with settlement dates of less than one month as of December 31, 2015 and are not material. See Note 14, "Derivatives and Fair Value", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

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During 2014, we completed construction and placed into service approximately \$24.5 million and \$7.0 million of buildings related to facilities in Mexico for the RCH and CAS segments, respectively. In connection with certain restructuring initiatives within the CAS segment during 2015 as described previously, the CAS segment transferred its Mexico facility to the RCH segment in 2015. In accordance with the provisions of ASC 840, *Leases*, we were considered to be the owner of the asset during the construction period and we determined that the facilities did not qualify for de-recognition upon completion. These buildings are being depreciated over a 20 year estimated remaining useful life. The corresponding present values of the liabilities for the minimum monthly payments for these facilities are included in accrued liabilities for the current portion and other long-term liabilities for the long-term portion and are being amortized over 20 years using interest rates of approximately 7.5% and 6.4% for the respective obligations. Annual minimum payments under these agreements are approximately \$2.4 million and \$0.6 million for the respective obligations.

Nortek, its subsidiaries, affiliates, or significant shareholders (subject to the Investor Agreement between the Company and Ares Management LLC, dated as of April 4, 2012, as described in the Form 8-K filed by the Company with the SEC on April 5, 2012) may from time to time, in their sole discretion, purchase, repay, refinance, redeem or retire any of our outstanding debt, in privately negotiated or open market transactions, by tender offer or otherwise, which may be subject to restricted payment limitations.

Off-Balance Sheet Arrangements

At December 31, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, that have or are reasonably likely to have a current or future material effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. We have issued letters of credit in the ordinary course of our business in order to participate in certain demand response programs. See “ - *Adequacy of Liquidity Sources*” below and Note 4, “*Notes, Mortgage Notes and Obligations Payable*”, to the consolidated financial statements, Item 8 of Part II to this report.

Adequacy of Liquidity Sources

At December 31, 2015, we had approximately \$24.6 million of unrestricted cash and cash equivalents, of which approximately \$22.8 million was held by foreign subsidiaries, to fund our cash needs for 2016. The cash held by foreign subsidiaries will be used primarily to fund the operations of our foreign subsidiaries, and with the exception of amounts at one subsidiary, are not expected to be repatriated. We have provided deferred taxes related to those amounts that are not indefinitely invested. There are no significant restrictions on the cash held by foreign subsidiaries. At December 31, 2015, we have not provided United States income taxes or foreign withholding taxes on unremitted foreign earnings of approximately \$78.5 million, as those amounts are considered indefinitely invested. If these unremitted foreign earnings are needed for U.S. operations and can no longer be permanently indefinitely invested outside the United States, we would be required to accrue and pay U.S. taxes on the earnings associated with these funds.

Our ABL Facility consists of a \$280.0 million U.S. facility (with a \$60.0 million sublimit for the issuance of U.S. standby letters of credit and a \$20.0 million sublimit for U.S. swingline loans) and a \$20.0 million Canadian facility. As of February 22, 2016, we had approximately \$54.0 million in outstanding borrowings and approximately \$11.5 million in outstanding letters of credit under the ABL Facility. Based on the January 2016 borrowing base calculations, at February 22, 2016, we had excess availability of approximately \$234.5 million under the ABL Facility and approximately \$204.5 million of excess availability before triggering the cash deposit requirements as discussed further below.

As noted previously, the indentures and other agreements governing our indebtedness and the indebtedness of our subsidiaries contain certain restrictive financial and operating covenants, including covenants that restrict our ability and the ability of our subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets, and take certain other corporate actions (all as defined in the indentures and other agreements). As of December 31, 2015, we had the capacity to make certain payments, including dividends, of approximately \$102.9 million.

From time to time, we have evaluated and expect to continue to evaluate possible acquisition transactions and possible dispositions of certain of our businesses and at any given time may be engaged in discussions or negotiations with respect to possible acquisitions or dispositions.

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Debt Covenant Compliance

The agreements that govern the terms of our outstanding debt, including the indenture that governs the 8.5% Notes, and the credit agreements that govern the ABL Facility and Term Loan Facility, contain covenants that restrict our ability and the ability of certain of our subsidiaries to, among other things:

- consolidate, merge or sell assets;
- pay dividends or make certain payments or distributions;
- incur additional indebtedness;
- make loans, investments, or acquisitions;
- incur certain liens; and
- enter into transactions with affiliates.

On June 3, 2015, we amended our ABL Facility to reflect a change in the circumstances in which amounts deposited by us in collection accounts maintained by the administrative agent will be used to repay outstanding loans and cash collateralized letters of credit (a "Cash Dominion Event"). Under the terms of the amendment, a Cash Dominion Event exists if (i) excess availability (as defined in the ABL Facility) falls below the greater of \$30.0 million or 10.0% of the total amount of the U.S. and Canadian credit facilities (rather than 12.5% of the borrowing base) or (ii) an event of default has occurred and is continuing. In addition, under the ABL Facility, if (i) excess availability falls below the greater of \$30.0 million or 12.5% of the U.S. and Canadian credit facilities or (ii) an event of default has occurred and is continuing, we will be required to satisfy and maintain a consolidated fixed charge coverage ratio measured on a trailing four quarter basis of not less than 1.0 to 1.0. The ABL Facility and the Term Loan Facility also restrict our ability to prepay our other indebtedness, including the 8.5% Notes and, with respect to the ABL Facility, the Term Loan Facility, or designate any other indebtedness as senior debt.

In addition, the indenture that governs our 8.5% Notes and the credit agreement that governs the Term Loan Facility contain certain covenants that limit our ability to designate any of our subsidiaries as unrestricted subsidiaries or permit any restricted subsidiaries that are not guarantors under the indenture from guaranteeing our debt or the debt of any of our other restricted subsidiaries. The indenture governing our 8.5% Notes and the credit agreement that governs the Term Loan Facility also restrict our ability to incur certain additional indebtedness (but does not restrict our ability to incur indebtedness under the ABL Facility or certain other forms of permitted debt) if the fixed charge coverage ratio ("FCCR") measured on a trailing four quarter basis falls below 2.0 to 1.0. The FCCR is the ratio of the Adjusted Consolidated Cash Flow, ("ACCF", as described in greater detail below) to Fixed Charges (as defined in the indenture governing the 8.5% Notes and the credit agreement governing the Term Loan Facility) for such trailing four quarter period. As of December 31, 2015, under the 8.5% Notes (before the inclusion of run rate cost savings and synergies) the FCCR was approximately 2.9 to 1.0.

A breach of the covenants under the indentures that govern our 8.5% Notes or the credit agreements that govern the ABL Facility and Term Loan Facility could result in an event of default under the applicable indenture or credit agreement. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the ABL Facility would permit the lenders under the ABL Facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under our ABL Facility or the Term Loan Facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or noteholders accelerate the repayment of our borrowings, we cannot provide assurance that we and our subsidiaries would have sufficient assets to repay such indebtedness.

As of December 31, 2015, we were in compliance with all covenants under the indenture that governs the 8.5% Notes and the credit agreements that govern the ABL Facility and Term Loan Facility and we believe it is reasonably assured that we will comply with the covenants for the foreseeable future.

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Consolidated Cash Flow and Adjusted Consolidated Cash Flow

Consolidated Cash Flow ("CCF") represents net earnings (loss) before interest, income taxes, depreciation and amortization (including the effects of fresh-start accounting), and loss from debt retirement. ACCF is CCF further adjusted to exclude certain cash and non-cash, non-recurring items. CCF and ACCF are not defined terms under U.S. GAAP. Neither CCF nor ACCF should be considered an alternative to operating income or net earnings (loss) as a measure of operating results. There are material limitations associated with making the adjustments to our earnings to calculate CCF and ACCF and using these non-U.S. GAAP financial measures as compared to the most directly comparable U.S. GAAP financial measures. For instance, CCF and ACCF do not include:

- interest expense, and, because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and ability to generate revenue;
- depreciation and amortization expense, and, because we use capital assets, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue;
- income tax expense, and because the payment of taxes is part of our operations, tax expense is a necessary element of our costs and ability to operate; or
- certain cash and non-cash, non-recurring items, and share-based compensation expense, and, because such items can, at times, affect our operating results, the exclusion of such items is a material limitation.

We present CCF because we consider it an important supplemental measure of our performance and believe it is frequently used by our investors and other interested parties in the evaluation of companies in our industry, many of which present CCF when reporting their results. In addition, CCF provides additional information to facilitate internal comparisons to historical operating performance of prior periods. Further, we believe that CCF facilitates operating performance comparisons from period to period because it excludes potential differences caused by variations in capital structure (affecting interest expense), tax positions (such as the impact of changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting depreciation expense).

We believe that the inclusion of supplementary adjustments to CCF applied in presenting ACCF are appropriate to provide additional information to investors about the performance of the business, and we are required to reconcile net earnings (loss) to ACCF to demonstrate compliance with debt covenants. While the determination of appropriate adjustments in the calculation of ACCF is subject to interpretation under the terms of the 8.5% Notes, we believe the adjustments described below are in accordance with the covenants in the indentures governing the 8.5% Notes.

Prior to May 4, 2015, the 10% Notes resulted in a more restrictive calculation of ACCF. On May 4, 2015, the 10% Notes were redeemed.

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The following table reconciles net loss to CCF and ACCF for the 8.5% Notes for the trailing four quarters ended December 31, 2015 and 2014:

	Trailing Four Quarters Ended December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Net loss	\$ (26.7)	\$ (45.6)
Benefit from income taxes	(3.4)	(19.4)
Loss from debt retirement	14.8	2.3
Interest expense	100.7	105.7
Investment income	—	(0.1)
Depreciation and amortization expense	118.2	105.4
Consolidated Cash Flow	203.6	148.3
Investment income	—	0.1
Impairment of long-lived assets and goodwill	1.6	80.4
Non-recurring losses ^(a)	4.4	1.4
Acquisition fees and expenses	1.7	7.5
Gain on sale of assets	(0.9)	(0.3)
Joint venture income	(0.3)	—
Share-based compensation expense	5.4	6.2
Net foreign exchange (gains) losses ^(b)	(0.3)	1.2
Restructuring and transformation charges ^(c)	51.3	30.4
Pro-forma effect of acquisitions and dispositions ^(d)	2.3	10.0
Adjusted Consolidated Cash Flow ^(e)	\$ 268.8	\$ 285.2

(a) Amounts relate to non-recurring gains or losses, as defined in the indenture governing the 8.5% Notes. For the trailing four quarters ended December 31, 2015, this amount includes (1) a favorable fair value adjustment of approximately \$(3.5) million relating to the Numera contingent consideration within the SCS segment, (2) the loss on sale of assets of TV One of approximately \$2.9 million in the AVC segments, (3) approximately \$2.3 million in legal and other professional services incurred related to the FCPA investigation primarily in the SCS segment, (4) approximately \$2.8 million of charges associated with executive transition employment and separation agreement costs and other fees within Unallocated, and (5) accretion of approximately \$(0.1) million to record leasehold fair value adjustments.

For the trailing four quarters ended December 31, 2014, this amount includes (1) approximately \$0.8 million in legal and other professional services incurred related to the FCPA investigation in the SCS segment, (2) severance of approximately \$0.2 million related to headcount reductions in the CAS segment, (3) approximately \$0.2 million of charges within the ERG segment relating to the write off of an indemnification asset associated with a reserve for uncertain tax positions, and (4) approximately \$0.2 million related to the write-off of deferred equity costs within Unallocated.

(b) Non-cash foreign exchange (gains) losses related to intercompany debt not indefinitely invested in our subsidiaries, recorded within Unallocated.

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- (c) Includes all restructuring charges, including severance, relocation and transformation/transition costs. Costs associated with these activities for the trailing four quarters ended December 31, 2015 and 2014 were as follows:

	Trailing Four Quarters Ended December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Subsidiary combinations	\$ 7.8	\$ 4.4
Manufacturing Rationalization & Relocation Initiatives	6.5	14.7
Warehousing & Distribution Consolidation	13.9	2.8
CAS Consolidation	12.0	—
Other operational improvement initiatives	3.9	8.2
All other exit and disposal activities	7.2	0.3
	<u>\$ 51.3</u>	<u>\$ 30.4</u>

- (d) Includes the pro-forma effect of our acquisitions of Reznor, Phoenix, Anthro, and Numera, as if the acquisitions had occurred on the first day of the four-quarter reference period, and the pro-forma effect of our disposition of TV One as if the disposition had occurred on the first day of the four-quarter reference period. See Note 2, "Acquisitions and Dispositions", to the consolidated financial statements, Item 8 of Part II to this report, for additional pro forma information surrounding the acquisition of Reznor.
- (e) Under the indenture governing the 8.5% Notes, ACCF includes the amount of run-rate cost savings and synergies, as defined. Such amounts are estimates of future cost savings and synergies resulting from actions taken by us, however there can be no assurance that these cost savings and synergies will be realized in the future in the amounts estimated, or at all. We have excluded gross run-rate cost savings and synergies from the table above.

As noted previously, under the amended ABL Facility, if (i) excess availability falls below the greater of \$30.0 million or 12.5% of the U.S. and Canadian credit facilities, or (ii) an event of default has occurred and is continuing, we will be required to satisfy and maintain a consolidated fixed charge coverage ratio measured on a trailing four quarter basis of not less than 1.0 to 1.0. At December 31, 2015, excess availability for purposes of compliance with a covenant trigger event under the ABL Facility exceeded \$30.0 million and 12.5% of the U.S. and Canadian credit facilities. Our FCCR under the ABL Facility at December 31, 2015 was 2.0 to 1.0. Similar to the 8.5% Notes, the FCCR under the ABL Facility is the ratio of ACCF to Fixed Charges; however, in addition to other differences, ACCF under the ABL Facility is further reduced by the aggregate amount of all capital expenditures for the trailing four quarters and income taxes paid or payable in cash for the trailing four quarters, and Fixed Charges under the ABL Facility are further increased by mandatory principal payments during the period. As a result, ACCF under the ABL Facility at December 31, 2015 was approximately \$201.4 million.

Internal Investigation and Compliance Matters

As part of our routine internal audit activities, we discovered certain questionable hospitality, gift and payment practices, and other expenses at our subsidiary, Linear Electronics (Shenzhen) Co. Ltd. ("Linear China"), which are inconsistent with our policies and raise concerns under the FCPA and perhaps under other applicable anti-corruption laws. We conducted an internal investigation into these practices and payments with the assistance of outside counsel. In 2015 and 2014, approximately \$2.3 million and \$0.8 million, respectively, was recorded for legal and other professional services incurred related to the internal investigation of this matter. We expect to incur additional costs relating to the investigation of this matter in 2016. See Note 6, "Commitments and Contingencies", to the consolidated financial statements, Item 8 of Part II to this report.

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Inflation, Trends and General Considerations

From time to time, we have evaluated and expect to continue to evaluate possible acquisition transactions and the possible dispositions of certain of our businesses, and at any given time we may be engaged in discussions or negotiations with respect to possible acquisitions or dispositions.

The demand for our 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. Our lower sales levels usually occur during the first and fourth quarters. Since a high percentage of our 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 needs of our subsidiaries is greater from late in the first quarter until early in the fourth quarter.

We are subject to the effects of changing prices and the impact of inflation which could have a significant adverse effect on our results of operations. In some circumstances, market conditions or customer expectations may prevent us from increasing the prices of our products to offset the inflationary pressures that may increase costs in the future. Continued strategic sourcing initiatives and other cost reduction measures help mitigate fluctuations in such costs, including commodity and freight costs. See “- *Industry Overview*”.

As of December 31, 2015 and 2014, approximately 4.5% and 4.1%, respectively, of our workforce was subject to various collective bargaining agreements.

Market Risk

As discussed more specifically below, we are exposed to market risks related to changes in interest rates, foreign currencies and commodity pricing. We historically have not used derivative financial instruments, except on a limited basis, to mitigate certain economic exposures. We frequently evaluate certain potential programs, including the use of derivative financial instruments, to reduce our exposures, and the volatility of future cash flows caused by changes in currency exchange rates, interest rates and commodity rates. The utilization of derivative financial instruments to mitigate certain economic exposures may reduce, but would not eliminate, the impact of currency exchange rate, interest rate or commodity rate movements. As discussed further below, during the third quarter of 2015, we enhanced our program to mitigate exposure to changes in foreign currency exchange rates.

A. Interest Rate Risk

We are exposed to market risk from changes in interest rates primarily through our investing and borrowing activities. In addition, our ability to finance future acquisition transactions may be impacted if we are unable to obtain appropriate financing at acceptable interest rates.

Our 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. At December 31, 2015 and 2014, the fair value of our unrestricted and restricted investments and marketable securities was not materially different from their cost basis.

We manage our borrowing exposure to changes in interest rates by optimizing the use of fixed rate debt with extended maturities. At December 31, 2015 and 2014, approximately 53% and 74%, respectively, of the carrying value of our long-term debt was at fixed interest rates. The remaining portion of our long-term debt is at variable interest rates. The decrease in long-term debt at fixed interest rates is primarily the result of our second quarter 2015 debt transactions as previously discussed. Based upon interest rates in effect at December 31, 2015, an overall unfavorable change in interest rates of 100 basis points would result in an additional charge to interest expense of approximately \$6.5 million in 2016.

See the table set forth in Item D (Long-term Debt) below and Note 4, “*Notes, Mortgage Notes and Obligations Payable*”, to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report for further disclosure of the terms of our debt.

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B. Foreign Currency Risk

We manufacture, market and sell our products globally and as a result, a portion of our sales are generated outside the United States in local currencies. We also incur certain manufacturing, marketing and selling costs in international markets in local currency. Accordingly, our earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the U.S. Dollar, our reporting currency. The impact of changes in foreign currency exchange rates related to transactions resulted in a decrease in net foreign exchange losses recorded in SG&A of approximately \$3.5 million for 2015 as compared to 2014 and resulted in an increase in foreign exchange losses of approximately \$0.5 million for 2014 as compared to 2013. The impact of changes in foreign currency exchange rates related to translation resulted in a decrease in stockholders' investment of approximately \$10.5 million for 2015, a decrease in stockholders' investment of approximately \$7.9 million for 2014, and a decrease in stockholder's investment of approximately \$3.0 million for 2013.

During the third quarter of 2015, we enhanced our program to mitigate exposure to changes in foreign currency exchange rates. The enhancement to the program included the use of foreign currency forward contracts, which were entered into during the second half of 2015, to minimize, for a period of time, the impact on our financial results from changes in foreign exchange rates, primarily the British Pound Sterling, Canadian Dollar and the Chinese Yuan Renminbi. During the second half of 2015, we also entered into certain foreign currency forward contracts to hedge the anticipated cash flows from transactions denominated in foreign currencies, primarily the Mexican Peso. This does not eliminate the impact of the volatility of foreign exchange rates. We manage our exposure to changes in foreign currency on a consolidated basis to take advantage of offsetting transactions and balances.

During the second half of 2015, the Company commenced using currency forward contracts as part of our strategy to manage exposure related to foreign currency denominated monetary assets and liabilities. These foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, generally one month. We had non-designated foreign currency hedge contracts outstanding with a notional amount of approximately \$22.9 million as of December 31, 2015. There were no material unrealized gains or losses related to contracts outstanding as of December 31, 2015. During the second half of 2015, we settled non-designated foreign currency hedge contracts with a notional amount totaling approximately \$53.3 million resulting in a realized loss upon settlement of approximately \$0.6 million. All of our foreign currency hedge contracts to date have been non-designated contracts. The losses related to non-designated foreign currency hedge contracts are not material, and are included as a component of SG&A within our consolidated statement of operations. In February 2016, we entered into multiple foreign currency cash flow hedge contracts to hedge the anticipated cash flows from inventory purchases denominated in the Mexican Peso with a total notional amount of approximately \$6.4 million and with settlement dates through December 2016. All of the contracts are non-designated contracts and therefore, any changes in fair value will be recorded to earnings in our consolidated statement of operations.

We manage our exposure to foreign currency exchange risk principally by trying to minimize our net investment in foreign assets, including the use of strategic short and long-term borrowings at the foreign subsidiary level. Consistent with this strategy, short term bank obligations at December 31, 2015 consist primarily of short-term borrowings by certain of our foreign subsidiaries. At December 31, 2015 and 2014, our net investment in foreign assets was approximately \$217.6 million and \$223.2 million, respectively. An overall unfavorable change in foreign exchange rates in effect at December 31, 2015 of 10% would result in a reduction in equity as a result of the impact on the cumulative translation adjustment of approximately \$19.8 million.

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C. Commodity Pricing Risk

We are subject to significant market risk with respect to the pricing of our principal raw materials and purchased components (which include, among others, steel, copper, aluminum, electronics, motors, plastics, compressors, various chemicals and paints, and packaging). If prices of these raw materials were to increase dramatically, we may not be able to pass such increases on to customers and, as a result, gross margins could decline significantly. We manage our exposure to commodity pricing risk by continuing to diversify our product mix, strategic buying programs and vendor partnering.

We generally do not enter into derivative financial instruments to manage commodity-pricing exposure. At December 31, 2015 and 2014, we did not have any material outstanding commodity forward contracts.

D. Long-term Debt

The table that follows sets forth our long-term debt obligations (excluding approximately \$3.4 million of unamortized debt premium and approximately \$4.9 million of unamortized debt discount), principal cash flows by scheduled maturity, weighted average interest rates and estimated fair market values. Less than 1% of our total long-term indebtedness is denominated in foreign currencies. The weighted average interest rates for variable rate debt are based on December 31, 2015 interest rates.

Long-term Debt:

Year-Ending	Scheduled Maturity			Weighted Average Interest Rate		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
	<i>(Dollar amounts in millions)</i>					
December 31, 2016	\$ 0.8	\$ 6.2	\$ 7.0	5.8%	3.5%	3.8%
2017	0.9	50.2	51.1	5.4	2.5	2.5
2018	0.6	6.2	6.8	4.3	3.5	3.6
2019	0.2	6.1	6.3	0.8	3.5	3.4
2020	2.4	583.8	586.2	8.4	3.5	3.5
Thereafter	736.1	—	736.1	8.5	—	8.5
Total Long-term Debt at December 31, 2015 ⁽¹⁾	<u>\$ 741.0</u>	<u>\$ 652.5</u>	<u>\$ 1,393.5</u>	8.5%	3.4%	6.1%
Fair Market Value of Long-term Debt at December 31, 2015 ⁽²⁾	<u>\$ 766.7</u>	<u>\$ 652.5</u>	<u>\$ 1,419.2</u>			

(1) Includes our 8.5% Notes with a total principal amount of \$735.0 million and remaining outstanding borrowings under our Term Loan Facility of approximately \$608.4 million.

(2) We determined the fair market value of our 8.5% Notes using available market quotes from published sources. For our remaining outstanding indebtedness (including outstanding borrowings under the ABL Facility and Term Loan Facility), we assumed that the carrying value of such indebtedness approximated the fair value based upon the variable interest rates associated with certain of these debt obligations and our estimated credit risk.

See “- Liquidity and Capital Resources” and Note 4, “Notes, Mortgage Notes and Obligations Payable”, to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report for further information concerning our outstanding debt obligations.

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Critical Accounting Estimates

This MD&A is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"). Certain of our 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. We periodically evaluate the judgments and estimates used for our critical accounting policies to ensure that such judgments and estimates are reasonable for our interim and year-end reporting requirements. These judgments and estimates are based upon our historical experience, current trends and other information available, as appropriate. If actual conditions are different from those assumptions used in our judgments, actual results could be materially different from our estimates. Our critical accounting policies are discussed below.

Revenue Recognition, Accounts Receivable and Related Expenses

We generally recognize sales when passage of title and risk of loss to the customer occurs, which is typically upon shipment, and have procedures in place at each of our subsidiaries to ensure that an accurate cut-off is obtained for each reporting period. We consider revenue to be realized or realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured.

Certain of our arrangements with customers, principally in the CAS segment, are multiple-element arrangements that can include any combination of products and services such as extended warranties, installation and start up testing as deliverables. With the exception of certain extended warranty arrangements, substantially all of the deliverables within our multiple element arrangements are delivered within a one year period. In accordance with ASC 605-25, "Revenue Recognition", we believe that any undelivered elements can be accounted for separately from the delivered element when the delivered elements have value to our customers on a stand-alone basis. Accordingly, revenue for an undelivered element is deferred until delivery occurs. We are required to allocate revenue to multiple element arrangements based on the relative fair value of each element's estimated selling price. We use vendor-specific objective evidence ("VSOE"), if available, to determine the selling price of each element. We determine VSOE based on our normal pricing and discounting practices for the specific product or service when sold on a stand-alone basis. In determining VSOE, our policy requires a substantial majority of selling prices for a product or service to be within a reasonably narrow range. We also consider the class of customer, method of distribution, and the geographies into which our products and services are sold when determining VSOE. If VSOE is not available, we use third-party evidence or our best estimated selling price to determine the selling price for each element.

Allowances for cash discounts, volume rebates, other customer incentive programs and gross customer returns, among others, are recorded as of the later of the date at which the revenues are recognized or the incentive is offered and are generally recorded as a reduction of sales at the time of sale based upon the estimated future outcome. Certain customer incentives are recorded as a charge to selling, general and administrative expense, net ("SG&A") if there is a separable, identifiable benefit related to the incentive that can be quantified. These customer incentives principally relate to promotional advertising allowances where the customer is required to obtain approval and provide support for the associated advertising expenditures in order to receive the incentive consideration. Cash discounts, volume rebates and other customer incentive programs are based upon certain percentages agreed to with our various customers, which are typically earned by the customer over an annual period. We record periodic estimates for these amounts based upon the historical results to date, estimated future results through the end of the contract period, and the contractual provisions of the customer agreements. For calendar year customer agreements, we are able to adjust our periodic estimates to actual amounts as of December 31 each year based upon the contractual provisions of the customer agreements. For those customers who have agreements that are not on a calendar year cycle, we record estimates at December 31 consistent with the above described methodology. Customers are generally not required to provide collateral for purchases. As a result, at the end of any given reporting period, the amounts recorded for these allowances are based upon estimates of the likely outcome of future sales with the applicable customers and may require adjustment in the future if the actual outcome differs. We believe that our procedures for estimating such amounts are reasonable.

Certain of our arrangements provide for rights of returns. Customer returns are recorded on an actual basis throughout the year and also include an estimate at the end of each reporting period for future customer returns related to sales recorded prior to the end of the period. We generally estimate customer returns based upon the time lag that historically occurs between the date of the sale and the date of the return, while also factoring in any new business conditions that might impact the historical analysis, such as new product introductions. We believe that our procedures for estimating such amounts are reasonable and allow us to make reliable

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estimates which are based on a historical large, homogeneous pool of transactions and history of returns. If a reliable estimate of returns cannot be made, we defer revenues until the right of return lapses. If we defer the recognition of arrangement consideration due to the fact that the criteria for revenue recognition are not achieved, we also defer the recognition of the related direct and incremental costs, primarily product costs, and recognize such costs upon recognition of the corresponding deferred revenues.

On June 30, 2015, one of our wholly-owned subsidiaries completed the acquisition of certain assets and liabilities related to Numera. Due to the fact that the fees that Numera receives for hardware sales and related hardware activations were not deemed separate units of accounting, these fees are deferred and recognized ratably over the estimated period of economic benefit which has been initially determined to be three years. In addition, Numera capitalizes the direct and incremental costs related to hardware and activation sales and recognizes these costs over the same period that the associated revenue is recognized. As of December 31, 2015, Numera had approximately \$2.8 million of deferred revenue and approximately \$2.2 million of deferred cost of revenues.

With the exception of deferred cost of revenues related to Numera discussed above, the amount of deferred cost of revenues at December 31, 2015 and 2014, respectively, was not material.

We also provide for our estimate of warranty, bad debts and shipping costs at the time of sale. Shipping and warranty costs are included in cost of revenues. Provisions for the estimated allowance for doubtful accounts are recorded in SG&A. The amounts recorded are generally based upon historically derived percentages while also factoring in any new business conditions that might impact the historical analysis such as changes in economic conditions, past due and nonperforming accounts, bankruptcies or other events affecting particular customers. We periodically evaluate the adequacy of our allowance for doubtful accounts recorded in our consolidated balance sheet to ensure the adequacy of the recorded provisions. The analysis for allowance for doubtful accounts often involves subjective analysis of a particular customer's ability to pay. As a result, significant judgment is required in determining the appropriate amounts to record and such judgments may prove to be incorrect in the future. We believe that our procedures for estimating such amounts are reasonable.

Inventory Valuation

We value inventories at the lower of the cost or market with approximately 34% of our inventory at December 31, 2015 valued using the last-in, first-out ("LIFO") method and the remainder valued using the first-in, first-out ("FIFO") method. In connection with both LIFO and FIFO inventories, we record provisions, as appropriate, to write-down obsolete and excess inventory to estimated net realizable value. The process for evaluating obsolete and excess inventory often requires us to make subjective judgments and estimates concerning future sales levels, quantities, and prices at which such inventory will be able to be sold in the normal course of business. Accelerating the disposal process or incorrect estimates of future sales potential may cause the actual results to differ from the estimates at the time such inventory is disposed or sold. We believe that our procedures for estimating such amounts are reasonable. See Note 1, "*Summary of Significant Accounting Policies*", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

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Income Taxes

We account for income taxes using the liability method in accordance with ASC 740, "Income Taxes" ("ASC 740"), which requires that the deferred tax consequences of temporary differences between the amounts recorded in our consolidated financial statements and the amounts included in our federal, state and foreign income tax returns to be recognized in the balance sheet. As we generally do not file our income tax returns until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual tax returns are filed for that fiscal year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that we and our subsidiaries are required to file, the potential utilization of operating and capital loss carry-forwards and valuation allowances required, if any, for tax assets that may not be realizable in the future. We require each of our subsidiaries to submit year-end tax information packages as part of the year-end financial statement closing process so that the information used to estimate the deferred tax accounts at December 31 is reasonably consistent with the amounts expected to be included in the filed tax returns. We adopted ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17") at December 31, 2015. ASU 2015-17 simplifies the classification of deferred income tax liabilities and assets on the balance sheet by requiring deferred tax liabilities and assets to be classified as non-current on the balance sheet rather than classifying them separately into current and non-current amounts. Prior to our adoption of ASU 2015-17, ASC 740 required balance sheet classification of current and long-term deferred income tax assets and liabilities based upon the classification of the underlying asset or liability that gave rise to a temporary difference. As such, we have historically had deferred tax assets due principally to the unfavorable tax consequences of recording expenses for required book reserves for such things as, among others, bad debts, inventory valuation, insurance, product liability and warranty that cannot be deducted for income tax purposes until such expenses are actually paid. In addition, we have deferred tax liabilities related to basis differences in intangible assets and in property and equipment. We believe the procedures and estimates used in our accounting for income taxes are reasonable and in accordance with established tax law. The income tax estimates used have historically not resulted in material adjustments to income tax expense in subsequent periods when the estimates are adjusted to the actual filed tax return amounts, although there may be reclassifications between the current and long-term portion of the deferred tax accounts. See Note 8, "Income Taxes", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Goodwill

Evaluation of Goodwill Impairment

We account for acquired goodwill in accordance with Accounting Standards Codification ("ASC") 805, "Business Combinations" and ASC 350, "Intangibles - Goodwill and Other" ("ASC 350"), which involves judgment with respect to the determination of the valuation of the acquired assets and liabilities assumed in order to determine the final amount of goodwill recorded in a purchase. Under ASC 350, goodwill is not amortized. Instead, it is evaluated for impairment on an annual basis, or more frequently when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value, including, for example, a significant adverse change in the business climate. We have set the annual evaluation date as of the first day of our fiscal fourth quarter. The reporting units evaluated for goodwill impairment have been determined to be the same as our operating segments. With the exception of the CAS reporting unit and the AVC entities, all of our reporting units have goodwill and, therefore, are required to be evaluated for goodwill impairment.

Under ASC 350, if we conclude that it is more likely than not that the fair value of a reporting unit exceeds the carrying amount, we are not required to perform the annual quantitative two-step impairment test. We used the qualitative assessment approach in connection with our 2014 annual impairment evaluation for the ERG and RCH reporting units.

With the exception of the interim goodwill impairment evaluation completed as of the end of the second quarter of 2014 for the legacy TECH, SCS and AVC reporting units, which resulted in a goodwill impairment charge of approximately \$4.4 million for the AVC reporting units, there were no other goodwill impairments related to any reporting units during 2015, 2014, or 2013.

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The following analyses were performed in connection with our annual qualitative assessment and are performed, if necessary, on an interim basis in order to determine if it is more likely than not that the fair value of any of our applicable reporting units are below the respective carrying amounts:

- We review public information from competitors and other industry information to determine if there are any significant adverse trends in our competitors' businesses, such as significant declines in market capitalization or significant goodwill impairment charges that could be an indication that the goodwill of our reporting units is potentially impaired.
- We review changes in our market capitalization and overall enterprise valuation to determine if there are any significant decreases that could be an indication that the valuation of our reporting units has significantly decreased.
- We review, and update if necessary, our long-term financial projections and compare them to the prior financial projections to determine if there has been a significant adverse change that could materially lower our prior valuation conclusions under both the discounted cash flow ("DCF") approach and the earnings before interest, taxes, depreciation and amortization ("EBITDA") multiple approach.
- We compare and evaluate the reasonableness of our financial projections based on both historical results, as well as forecasted public information of our competitors.
- We determine if there have been any significant increases to the weighted average cost of capital ("WACC") rates for each reporting unit, which could materially lower our prior valuation conclusions under the DCF approach.
- We determine if there have been any significant decreases to our estimated EBITDA multiples, which could materially lower our prior valuation conclusions under the EBITDA multiple approach.
- We determine the current carrying value for each reporting unit as of the end of the quarter and compare it to the previously determined amount in order to determine if there has been any significant increase that could impact our prior goodwill impairment assessments.
- We also, as necessary, run pro forma models substituting the new assumption information derived from the above analyses to determine the impact that such assumption changes would have had on the prior valuations. These pro forma calculations assist us in determining whether or not the new valuation assumption information would have resulted in a significant decrease in the fair value of any of the reporting units.

Based on these analyses, we make a final determination as to whether or not it is more likely than not that the fair value of any reporting unit with goodwill is lower than its carrying value. If this were to be the case, then a "Step 1 Test" is required under ASC 350. The Step 1 Test compares the estimated fair value of each reporting unit to its carrying value. If the estimated fair value is lower than the carrying value, there is an indication of goodwill impairment and a "Step 2 Test" is required. If the estimated fair value of the reporting unit exceeds the carrying value, no further goodwill impairment testing is required.

The Step 1 fair value estimation generally includes a combination of a DCF approach and an EBITDA multiple approach. The DCF approach requires that we forecast future cash flows of the reporting unit(s) and discount the cash flow stream(s) based upon a WACC rate that is derived, in part, from comparable companies within similar industries. The DCF calculations also include a terminal value calculation that is based upon an expected long-term growth rate for the applicable reporting unit. The EBITDA multiple approach requires that we estimate certain valuation multiples of EBITDA derived from comparable companies and apply those derived EBITDA multiples to the applicable reporting unit EBITDA for the selected EBITDA measurement periods. We then evaluate what we believe to be the appropriate weighted average of the DCF approach and the EBITDA multiple approach in order to arrive at our estimated fair value.

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The key assumptions used in order to determine the appropriate WACC rates for the DCF approach are as follows:

- A risk free rate based on the 20-year United States Treasury bond yield.
- A market risk premium based on our assessment of the additional risk associated with equity investment that is determined, in part, through the use of published historical equity risk studies as adjusted for the business risk index for each reporting unit. The business risk index is derived from comparable companies and measures the estimated stock price volatility. As such, changes in the market risk premium between periods reflect changes in the business risk index for the reporting units.
- Comparable company and market interest rate information is used to determine the cost of debt and the appropriate long-term capital structure in order to weight the cost of debt and the cost of equity into an overall WACC.
- A size risk premium based on the value of the reporting unit that is determined through the use of published historical size risk premia data.
- A specific risk premium for the cost of equity, as necessary, which factors in overall economic and stock market volatility conditions at the time the WACC is estimated.

2015 Interim and Annual Goodwill Impairment Considerations

During the third quarter of 2015, as a result of negative operating result trends, principally driven by the RCH and SCS reporting units, we evaluated whether such operating trends indicated that it was more likely than not that the fair value of any of our reporting units were below their carrying amounts. Based on consideration of a number of qualitative and other factors, including the historical excess of fair value over the carrying amount of these reporting units, as well as consideration of the current and forecasted operating results, we determined that it was not more likely than not that the fair values of our reporting units were below their carrying amounts. In order to further corroborate this assertion, we estimated a preliminary range of fair values of our reporting units using the income approach (discounted cash flow method) and the market approach (EBITDA multiple) with a range of preliminary assumptions. This analysis, including consideration of sensitivity of the key fair value assumptions, resulted in a range of estimated fair values that corroborated our conclusion that it was not more likely than not that the fair value of our reporting units were below their carrying amounts. We note that based on this analysis, the estimated fair values of its AQH, SCS and ERG reporting units exceeded their respective carrying amounts by more than 50%. However, the estimated values of RCH from the analysis described above only exceeded the carrying value by approximately 20% to 30% as of September 26, 2015.

Given the sensitivity analysis performed in the third quarter described above, we concluded that the work performed as of September 26, 2015 was sufficient to constitute an appropriate qualitative assessment to conclude that it was not more likely than not that the fair value of the reporting units were below their carrying amounts in support of our annual goodwill impairment test, which was as of the first day of the fourth quarter or September 27, 2015.

During the fourth quarter of 2015, we concluded that continued negative operating result trends for certain of our reporting units, as well as the decline in our overall market capitalization, represented indicators of potential goodwill impairment. As a result, we completed a quantitative goodwill impairment test as of the end of its fiscal month of November. We estimated the fair value of each of the reporting units using a weighted average of 50% for the DCF approach and 50% for the EBITDA approach, which we determined to be a reasonable and predictive methodology for estimating the long-term fair value of the reporting units. The AQH reporting unit and the North American operations of the RCH reporting unit valuations assumed a taxable transaction while the ERG reporting unit, SCS reporting unit and foreign operations of the RCH reporting unit valuations assumed a non-taxable transaction. The following table summarizes the WACC's utilized in the DCF approach and market multiples utilized in the EBITDA approach for each of the reporting units:

Reporting Unit	WACC	Range of Market Multiples	
		Low-End	High-End
AQH	12.4%	7.50	8.00
ERG	12.1%	7.50	8.00
SCS	14.4%	6.50	7.50
RCH	12.2%	8.50	9.50

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It was determined that the estimated fair values of our reporting units were greater than their carrying value. As a result, no Step 2 test for goodwill impairment was required as of November 21, 2015.

We believe that our assumptions used to estimate the fair value of its reporting units were reasonable. As an additional corroborative test of the reasonableness of those assumptions, we completed a reconciliation of our market capitalization and overall enterprise value to the fair value of all of our reporting units as of November 21, 2015. If different assumptions were used, particularly with respect to estimating future cash flows, weighted average costs of capital, and terminal growth rates, different estimates of fair value may have resulted. The estimated fair values of the AQH, ERG and SCS reporting units were more than 50% greater than the carrying value of these reporting units. However, the estimated fair value for the RCH reporting unit was only approximately 10% greater than the carrying value of this reporting unit. Therefore, a continued negative trend of operating results or material changes to forecasted operating results of the RCH reporting unit could result in the requirement for additional interim goodwill impairment tests and the potential of a future goodwill impairment charge, which could be material. As of December 31, 2015, the goodwill of the RCH reporting unit was approximately \$106.4 million and is principally related to the April 2014 acquisition of Reznor.

Based on consideration of the above interim goodwill impairment test, including the estimated excess fair value over carrying value of the reporting units, as well as, our review and analysis of any indicators of potential goodwill or other long-lived asset impairment from November 21, 2015 through December 31, 2015, we concluded that it was more likely than not that no impairment of goodwill existed as of December 31, 2015.

2014 Interim Goodwill Impairment Test

During the second quarter of 2014, we changed the composition of our reporting units to exclude the AVC subsidiaries from the SCS reporting unit due to the Chief Operating Decision Maker's decision to operate each of the AVC subsidiaries as separate operating segments, resulting in the creation of three new reporting units for goodwill impairment analysis. In addition, due to the continued decline in operating results of the AVC subsidiaries, we concluded in the second quarter of 2014 that indicators of potential long-lived assets and goodwill impairment were present. Based on these considerations, we performed the following:

1. **Evaluation of the realizability of long-lived assets** - In accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), we evaluate the realizability of long-lived assets, which primarily consists of property and equipment and definite lived intangible assets (the "ASC 360 Long-Lived Assets"), when events or business conditions warrant it, as well as whenever an interim goodwill impairment test is required under ASC 350. ASC 350 requires that the ASC 360 impairment test be completed, and any ASC 360 impairment be recorded, prior to performing the goodwill impairment test. Due to the continued decline in operating results of the AVC subsidiaries, we performed an interim test for the impairment of long-lived assets.

The evaluation of the impairment of long-lived assets, other than goodwill, is based on expectations of non-discounted future cash flows compared to the carrying value of the long-lived asset groups. If the sum of the expected non-discounted future cash flows is less than the carrying amount of the ASC 360 Long-Lived Assets, we would recognize an impairment loss if the carrying amount of the asset group exceeds its fair value. Our cash flow estimates are based upon future projected cash flows and, if appropriate, include assumed proceeds upon sale of the asset group at the end of the cash flow period. We believe that our procedures for estimating gross future cash flows, including the estimated sales proceeds, are reasonable and consistent with current market conditions for each of the dates when impairment testing has been performed.

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Based upon this analysis, we recorded a long-lived asset impairment loss of approximately \$76.0 million related to the AVC subsidiaries, comprised of intangible assets of approximately \$74.7 million and property and equipment of approximately \$1.3 million, during the second quarter of 2014. The impairment loss related to intangible assets by class and the applicable weighted average useful lives were as follows:

		Weighted Average Useful Lives
Customer relationships	\$ 48.0	16.2
Trademarks	19.6	12.7
Developed technology	6.1	6.3
Other	1.0	7.9
	<u>\$ 74.7</u>	<u>13.0</u>

We believe that the impairment losses were reasonable and represented our best estimate of the impairment loss. If market conditions deteriorate further for these entities, it is reasonably possible that the estimate of expected future cash flows may change, resulting in an additional impairment charge relating to property and equipment.

- Evaluation of the legacy TECH reporting unit for goodwill impairment** - As a result of the impairment indicators described above, we estimated the fair value of the legacy TECH reporting unit based upon an EBITDA multiple approach. Based on this estimate, the estimated fair value of the legacy TECH reporting unit exceeded the carrying value of the legacy TECH reporting unit. As a result, we did not believe that it was more likely than not that an impairment of the legacy TECH reporting unit goodwill had occurred.
- Allocation of the legacy TECH goodwill to each of the AVC subsidiaries** - We estimated the fair value of each of the AVC subsidiaries based upon a DCF approach, as previously described, and allocated a portion of the legacy TECH goodwill to each of the AVC subsidiaries based upon their relative fair value.
- Evaluation of the revised Security and Control Solutions reporting unit and each of the AVC subsidiaries reporting units for goodwill impairment** - During the second quarter of 2014, we prepared a "Step 1" Test that compared the estimated fair value of the AVC reporting units to their carrying value utilizing a DCF approach as described previously. As the carrying values of the AVC reporting units exceeded the estimated fair values, we performed a "Step 2" Test to measure the impairment loss by allocating the estimated fair values of the reporting units, as determined in Step 1, to the reporting units' assets and liabilities, with the residual amount representing the implied fair value of goodwill. Since the implied fair value of goodwill was determined to be less than the carrying value, an impairment loss of approximately \$4.4 million was recognized during the second quarter of 2014.

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2014 Annual Impairment Test

For the 2014 annual impairment test for AQH and SCS, we estimated the fair value of each of the reporting units using a weighted average of 50% for the DCF approach and 50% for the EBITDA approach, which we determined to be the most representative allocation for the estimate of the long-term fair value of the reporting units. The AQH valuation assumed a taxable transaction while the SCS valuation assumed a non-taxable transaction, with WACC's of 12.9% and 11.7%, respectively, and EBITDA multiples in the range of 7.0x to 7.5x and 7.5x to 9.0x, respectively, for the selected measurement periods of the latest twelve months through September 27, 2014, and forecasted 2014 and 2015. As the estimated fair values of AQH and SCS were both greater than their carrying values, no Step 2 test for goodwill impairment was required.

We believe that our assumptions used to estimate the fair value of AQH and SCS as of the first day of the fourth quarter were reasonable. If different assumptions were used, particularly with respect to estimating future cash flows, weighted average costs of capital, and terminal growth rates, different estimates of fair value may have resulted. The estimated fair values of the AQH and SCS reporting units would have to decrease by approximately 48% and 46%, respectively, before a potential impairment would be recognized.

We determined that it was appropriate to use the qualitative assessment approach for the 2014 annual goodwill impairment evaluation performed as of the first day of the fourth quarter for ERG and RCH. The estimated fair value of ERG derived in our prior valuation analysis continued to be significantly in excess of the carrying value. The goodwill for RCH as of the first day of the fourth quarter represented the preliminary goodwill recorded in connection with our acquisition of Reznor (see Note 2, "*Acquisitions and Dispositions*", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report). Based on the qualitative analysis performed, as described above, we determined that it was more likely than not that the fair values of ERG and RCH were both greater than their carrying amounts as of the first day of the fourth quarter. Accordingly, we were not required to perform the two-step quantitative impairment test for 2014 for ERG and RCH.

We did not prepare updated goodwill impairment analyses as of December 31, 2014 for any reporting unit, as there were no indicators during the quarter that would have required such analysis.

2013 Annual Impairment Test

For the 2013 annual impairment test for AQH, ERG and legacy TECH, we estimated the fair value of each of the reporting units using a weighted average of 50% for the DCF approach and 50% for the EBITDA approach, which we determined to be the most representative allocation for the estimate of the long-term fair value of the reporting units. The AQH valuation assumed a taxable transaction while the ERG and legacy TECH valuations each assumed a non-taxable transaction, with WACC's of 13.2%, 13.4% and 14.5%, respectively, and EBITDA multiples in the range of 7.5x to 8.0x, 6.5x to 7.5x and 7.0x to 8.5x, respectively, for the selected measurement periods of the latest twelve months through September 30, 2013, and forecasted 2013 and 2014. As the estimated fair value of AQH, ERG and legacy TECH was greater than the carrying value, no Step 2 test for goodwill impairment was required. We did not prepare updated goodwill impairment analyses as of December 31, 2013 for any reporting unit, as there were no indicators during the quarter that would have required such analysis.

We believe that our assumptions used to estimate the fair value of AQH, ERG and legacy TECH as of the first day of the fourth quarter were reasonable. If different assumptions were used, particularly with respect to estimating future cash flows, weighted average costs of capital, and terminal growth rates, different estimates of fair value may have resulted. The estimated fair values of the AQH, ERG, and legacy TECH reporting units would have to decrease by approximately 50.7%, 39.5%, and 23.8%, respectively, before a potential impairment would be recognized.

See Note 3, "*Goodwill and Other Intangible Assets*", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Other Long-Lived Assets

In accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), we evaluate the realizability of long-lived assets, which primarily consists of property and equipment and definite-lived intangible assets (the "ASC 360 Long-Lived Assets"), when events or business conditions warrant it, as well as whenever an interim goodwill impairment test is required under ASC 350. ASC

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350 requires that the ASC 360 impairment test be completed, and any ASC 360 impairment be recorded, prior to performing the goodwill impairment test.

In accordance with ASC 360, the evaluation of the impairment of long-lived assets, other than goodwill, is based on expectations of non-discounted future cash flows compared to the carrying value of the long-lived asset groups. If the sum of the expected non-discounted future cash flows is less than the carrying amount of the ASC 360 Long-Lived Assets, we would recognize an impairment loss if the carrying amount of the asset group exceeds its fair value. Our cash flow estimates are based upon historical cash flows, as well as future projected cash flows received from subsidiary management in connection with our annual company-wide planning process and interim forecasting, and, if appropriate, include a terminal valuation for the applicable subsidiary based upon an EBITDA multiple. We estimate the EBITDA multiples by reviewing comparable company information and other industry data. We believe that our procedures for estimating gross future cash flows, including the terminal valuation, were reasonable and consistent with current market conditions for each of the dates when impairment testing has been performed.

As a result of the potential indicators of goodwill impairment previously disclosed, the Company completed a review of impairment of other long-lived assets for its asset groups and a review of the estimated remaining useful lives in both the third and fourth quarter of 2015. We did identify, based on the changes in the expected utilization of certain assets, as well as revised estimated future cash flows, that a reduction of the remaining useful lives of certain intangible assets of assets groups within the AQH, RCH, SCS, and ERG reporting units was required. The impact of this change in estimated useful lives was approximately \$1.9 million of additional amortization expense in 2015 and represents a change in the estimated future annual amortization of approximately \$5.9 million. Except as described below, no impairment was noted in 2015.

As a result of certain restructuring initiatives that we commenced in the second quarter of 2015, we identified an indicator of impairment related to the long-lived assets of certain of the AVC entities due to declining operating results related to these companies. Based on review of the forecasted undiscounted cash flows over the remaining estimated useful life of the primary asset of the asset group, we determined that there was insufficient forecasted net positive cash flows to recover the net book value of property and equipment and such property and equipment had no material salvage value. As a result, we recorded an impairment charge of approximately \$1.2 million to reduce the carrying value of the property and equipment to zero.

For the year ended December 31, 2014, we recorded a long-lived asset impairment charge for property and equipment within the AVC segments of approximately \$1.3 million (see "*Goodwill - 2014 Interim Goodwill Impairment Test*").

In addition to the 2014 non-cash long-lived asset impairment charges for intangible assets and property and equipment noted previously for the AVC entities, the Company recorded a non-cash long-lived asset impairment charge of approximately \$4.3 million in 2013 related to the write-down of property and equipment in connection with the exit in the first quarter of 2014 of a product line within the AQH segment.

See Note 3, "*Goodwill and Other Intangible Assets*", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Pensions and Post-Retirement Health Benefits

Our accounting for pensions, including supplemental executive retirement plans and post-retirement health benefit liabilities, requires estimates of such items as the long-term average return on plan assets, the discount rate, the rate of compensation increase and the assumed medical cost inflation rate. We utilize long-term investment-grade bond yields as the basis for selecting a discount rate by which plan obligations are measured. An analysis of projected cash flows for each plan is performed in order to determine plan-specific duration. Discount rates are selected based on high quality corporate bond yields of similar durations. During 2014, the Society of Actuaries released new mortality tables that reflect increased life expectancy over the previous tables. We incorporated these new tables in the 2014 fair value measurement of our U.S. pension plans which resulted in an increase in the projected benefit obligation as of December 31, 2014. We used the updated mortality tables released by the Society of Actuaries in 2015 for the 2015 fair value measurement of our U.S. pension plans. These estimates require a significant amount of judgment as items such as stock market fluctuations, changes in interest rates, plan amendments, and curtailments can have a significant impact on the assumptions used and, therefore, on the ultimate final actuarial determinations for a particular year. We believe the procedures and estimates used in our accounting for pensions and post-retirement health benefits are reasonable and consistent with acceptable actuarial practices in accordance with U.S. generally accepted accounting principles. At December 31, 2015, the net actuarial loss recognized within accumulated other comprehensive loss that has not yet been recognized as a component of net periodic pension cost, net of

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tax, was approximately \$23.2 million which includes the defined benefit and post-retirement health benefit plans. See Note 13, "Pension, Profit Sharing and Other Post-Retirement Benefits", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Product Warranties

We sell a number of products and offer a number of warranties including, in some instances, extended warranties for which we receive proceeds. The specific terms and conditions of these warranties vary depending on the product sold and the country in which the product is sold. We estimate the costs that may be incurred under our warranties, with the exception of extended warranties, and record a liability for such costs at the time of sale. Deferred revenue from extended warranties is recorded at the estimated fair value and is amortized over the life of the warranty. The related deferred revenue is reviewed to ensure that the amount recorded is equal to or greater than estimated future costs. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, cost per claim, and new product introduction. We periodically assess the adequacy of our recorded reserves for warranty claims and adjust the amounts as necessary. Warranty claims can extend far into the future. As a result, significant judgment is required in determining the appropriate amounts to record and such judgments may prove to be incorrect in the future. We believe that our procedures for estimating such amounts are reasonable. See Note 6, "Commitments and Contingencies", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Insurance Liabilities, including Product Liability

We record insurance liabilities and related expenses for health, workers compensation, product and general liability losses, and other insurance reserves and expenses in accordance with either the contractual terms of our policies or, if self-insured, the total liabilities that are estimable and probable as of the reporting date. Insurance liabilities are recorded as current liabilities to the extent payments are expected to be made in the succeeding year, with the remaining requirements classified as long-term liabilities. The accounting for self-insured plans requires that significant judgments and estimates be made both with respect to the future liabilities to be paid for known claims, and incurred but not reported claims as of the reporting date. We consider historical trends when determining the appropriate insurance reserves to record. In certain cases where partial insurance coverage exists, we must estimate the portion of the liability that will be covered by existing insurance policies to arrive at our net expected liability. Receivables for insurance recoveries for product liability claims are recorded as assets, on an undiscounted basis, in the accompanying consolidated balance sheets. These recoveries are estimated based on the contractual arrangements with vendors and other third parties as well as historical trends. We believe that our procedures for estimating such amounts are reasonable. See Note 6, "Commitments and Contingencies", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

Contingencies

We are subject to contingencies, including legal proceedings and claims arising out of our business, that cover a wide range of matters including, among others, environmental matters, contract and employment claims, workers' compensation claims, product liability, product recalls, 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.

We provide accruals for direct costs, including legal costs, associated with the estimated resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Costs accrued have been estimated based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes. Legal costs for other than probable contingencies are expensed when services are performed.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, we believe 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 our consolidated financial position or results of operations. 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 our control. See Note 6, "Commitments and Contingencies", to the consolidated financial statements, Item 8 of Part II, included elsewhere in this report.

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Share-Based Compensation Expense

We measure share-based compensation expense at fair value in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"), and recognizes such expense over the vesting period of the share-based awards. Total share-based compensation expense for 2015, 2014 and 2013 totaled approximately \$5.4 million, \$6.2 million, and \$10.5 million, respectively.

The estimated fair value of options granted is measured on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate for periods within the life of the option is based upon a blend of U.S. Treasury bond rates with maturities equal to the expected term of the options. The expected term assumption is derived using the simplified method, as described in SEC Staff Accounting Bulletin Topic 14.D.2, "*Share-Based Payment - Certain Assumptions Used in Valuation Methods*". The expected volatility assumption is based upon the historical volatility of comparable public companies' stock as well as the implied volatility of outstanding options for the comparable companies that had such options. The dividend yield represents the expected dividends on the Company's common stock for the expected term of the option. To date, the expected dividend yield has been estimated at zero for all options measured. A significant change in interest rates, stock volatility, or the Company's expected dividend rate would have a direct impact on the estimated fair value of options granted subsequent to such a change, and related expense.

The estimated fair value of restricted stock granted is based upon the closing price of the Company's stock on the date of grant. In addition to restricted stock awards with time based vesting, the Company has also granted performance based awards. Expense related to restricted stock awards with performance based vesting conditions is recognized as it becomes probable that the restricted shares will vest. Certain of these awards have multi-year cumulative performance targets. Changes in estimate with respect to the probability of vesting could have a significant effect upon the amount of expense recognized in a given period.

The amount of stock-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on an analysis of historical forfeitures, we have determined a specific forfeiture rate for certain employee groups based on the award date and have applied forfeiture rates ranging from approximately 0% to 29% at December 31, 2015 depending on the specific employee group. This analysis is re-evaluated periodically and the forfeiture rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those awards that vest.

See Note 12, "*Share-Based Compensation*", to the consolidated financial statements, Item 8 Part II, included elsewhere in this report for further information regarding our share-based compensation programs.

New Accounting Pronouncements

See Note 1, "*Summary of Significant Accounting Policies*", to the consolidated financial statements, Item 8 Part II, included elsewhere in this report for further information regarding new accounting pronouncements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Quantitative and qualitative disclosures about market risk are set forth in *"Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Market Risk"*.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Financial statements and supplementary data required by this Item 8 are set forth at the pages indicated in Item 15(a), including exhibits, of Part IV of this report, incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

The required certification of our Chief Executive Officer, who is our principal executive officer, and is acting as our principal financial officer for SEC reporting purposes while we conduct our search for a permanent Chief Financial Officer, is included as Exhibit 31 to this Annual Report on Form 10-K. The disclosures set forth in this Item 9A contain information concerning the evaluation of our disclosure controls and procedures, management's report on internal control over financial reporting and changes in internal control over financial reporting referred to in those certifications. This certification should be read in conjunction with this Item 9A for a more complete understanding of the matters covered by the certification.

Evaluation of Disclosure Controls and Procedures

With the participation of our Chief Executive Officer, who is both the Company's principal executive and principal financial officer for SEC reporting purposes, the Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2015. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to the Company's management, including the Company's Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Anthro Corporation and Numera, Inc., which are included in the consolidated financial statements of Nortek, Inc. as of December 31, 2015 and constituted approximately 1% of total assets as of December 31, 2015 and approximately 2% of net sales for the year then ended. Based on the evaluation of our disclosure controls and procedures as of December 31, 2015, our Chief Executive Officer concluded that, as of such date, our disclosure controls and procedures were designed and are functioning effectively.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended December 31, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The acquisition of Anthro Corporation on January 21, 2015 and Numera, Inc. on June 30, 2015 have expanded the Company's internal control environment. The Company has not completed the integration of the acquired operations and systems into its overall internal control over financial reporting process. The process of integrating policies, processes, people, technology, operations and systems for the combined companies may result in additions or changes to the Company's internal control over financial reporting in the future. Management will continue to evaluate its internal control over financial reporting as the Company executes its integration activities.

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In addition, management will continue to evaluate its internal control over financial reporting in connection with the matters discussed under "*Legal Proceedings*", Item 3 of Part I to this report, relating to certain matters identified at our Linear Electronics (Shenzhen) Co. Ltd.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control system is designed to provide reasonable assurance to the Company's management, Board of Directors and shareholders regarding the preparation and fair presentation of the Company's published financial statements in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with the authorization of management of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

There are inherent limitations to the effectiveness of any system of internal control over financial reporting. Accordingly, even an effective system of internal control over financial reporting can only provide reasonable assurance with respect to financial statement preparation and presentation in accordance with accounting principles generally accepted in the United States of America. Our internal controls over financial reporting are subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time.

Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Anthro Corporation and Numera, Inc., which are included in the consolidated financial statements of Nortek, Inc. as of December 31, 2015 and constituted approximately 1% of total assets as of December 31, 2015 and approximately 2% of net sales for the year then ended.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making its assessment of internal control over financial reporting, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework (2013 framework)*.

Based on the results of this assessment, management, including our Chief Executive Officer, who is both the Company's principal executive and principal financial officer, has concluded that, as of December 31, 2015, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm, Ernst & Young LLP, has also issued an audit report on the Company's internal control over financial reporting, which is included immediately following this report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Nortek, Inc. and subsidiaries

We have audited Nortek, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Nortek, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Anthro Corporation and Numera, Inc., which are included in the 2015 consolidated financial statements of Nortek, Inc. and subsidiaries and constituted approximately 1% of total assets as of December 31, 2015 and approximately 2% of net sales for the year then ended. Our audit of internal control over financial reporting of Nortek, Inc. and subsidiaries also did not include an evaluation of the internal control over financial reporting of Anthro Corporation and Numera, Inc.

In our opinion, Nortek, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nortek, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' investment for each of the three years in the period ended December 31, 2015 of Nortek, Inc. and subsidiaries and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 29, 2016

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ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS.

The information required by this Item 10 with respect to executive officers of the Company is contained at the end of Part I of this Form 10-K under the heading “Executive Officers of the Registrant.”

Code of Ethics. The Company has adopted a Code of Business Conduct and Ethics (the “Code of Ethics”) that applies to the Company’s principal executive officer, principal financial officer, principal accounting officer, controller, and any persons performing similar functions, as well as all directors, officers and employees of the Company and its subsidiaries and affiliates. The Code of Ethics is posted on the Company’s website at www.nortek.com at “Corporate Governance” under “Investors”. A copy of the Code of Ethics is also available without charge by requesting it in writing from Nortek, Inc., 500 Exchange Street, Providence, Rhode Island 02903. The Company intends to satisfy the disclosure requirement regarding any amendment to, or a waiver from, a provision of the Code of Ethics for the Company’s principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on its website.

The other information required by this Item is incorporated by reference from our definitive proxy statement for our 2016 annual meeting of stockholders (“2016 Proxy Statement”) to be filed with the SEC within 120 days after December 31, 2015.

ITEM 11. EXECUTIVE COMPENSATION.

The other information required by this Item is incorporated by reference from the 2016 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is incorporated by reference from the 2016 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The other information required by this Item is incorporated by reference from the 2016 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The other information required by this Item is incorporated by reference from the 2016 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements.

See the [index](#) to consolidated financial statements set forth on page F-1.

(b) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts

All other financial statement schedules are not required or are included in the consolidated financial statements.

(c) The exhibits are listed in the [Exhibit Index](#), which is incorporated herein by reference

NORTEK, INC. AND SUBSIDIARIES
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on February 29, 2016.

NORTEK, INC.

/s/ Michael J. Clarke

Michael J. Clarke

Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, as of February 29, 2016.

/s/ Michael J. Clarke

Michael J. Clarke

Chief Executive Officer and President

(Principal Executive Officer and Principal Financial Officer)

/s/ Donald W. Reilly

Donald W. Reilly

Authorized Officer, Vice President - Corporate Controller

Chief Accounting Officer

/s/ Jeffrey C. Bloomberg

Jeffrey C. Bloomberg

Director

/s/ John T. Coleman

John T. Coleman

Director

/s/ James B. Hirshorn

James B. Hirshorn

Director

/s/ Thomas A. Keenan

Thomas A. Keenan

Director

/s/ Daniel C. Lukas

Daniel C. Lukas

Director

/s/ Chris A. McWilton

Chris A. McWilton

Director

/s/ Bennett Rosenthal

Bennett Rosenthal

Director

/s/ J. David Smith

J. David Smith

Director

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CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions, except per share data)</i>		
Net Sales	\$ 2,526.1	\$ 2,546.1	\$ 2,287.9
Costs and Expenses:			
Cost of revenues	1,797.9	1,805.0	1,624.6
Selling, general and administrative expense, net	571.0	557.8	519.8
Loss on sale of assets	2.9	—	—
Impairment of long-lived assets and goodwill (\$4.4 million for 2014)	1.6	80.4	4.3
Amortization of intangible assets	67.3	60.0	51.3
	2,440.7	2,503.2	2,200.0
Operating earnings	85.4	42.9	87.9
Net interest expense	(100.7)	(105.6)	(99.3)
Loss from debt retirement	(14.8)	(2.3)	—
Loss before benefit from income taxes	(30.1)	(65.0)	(11.4)
Benefit from income taxes	(3.4)	(19.4)	(3.1)
Net loss	\$ (26.7)	\$ (45.6)	\$ (8.3)
Basic (loss) earnings per share	\$ (1.67)	\$ (2.92)	\$ (0.54)
Diluted (loss) earnings per share	\$ (1.67)	\$ (2.92)	\$ (0.54)
Weighted Average Common Shares:			
Basic	15,943,527	15,635,710	15,371,932
Diluted	15,943,527	15,635,710	15,371,932

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

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions)</i>		
Net loss	\$ (26.7)	\$ (45.6)	\$ (8.3)
Other comprehensive (loss) income, net of tax:			
Currency translation adjustment	(10.5)	(7.9)	(3.0)
Pension liability adjustments:			
Actuarial gain (loss) arising during the period	3.5	(16.3)	14.3
Amortization to net income of net actuarial loss	1.4	0.2	0.7
Deferred income taxes on pension liability	(1.2)	4.6	(6.0)
Total pension liability adjustments, net of tax	3.7	(11.5)	9.0
Other comprehensive (loss) income	(6.8)	(19.4)	6.0
Comprehensive loss	\$ (33.5)	\$ (65.0)	\$ (2.3)

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

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollar amounts in millions)

	December 31,	
	2015	2014
Assets		
Current Assets:		
Unrestricted cash and cash equivalents	\$ 24.6	\$ 58.4
Restricted cash	0.3	0.6
Accounts receivable, less allowances of \$3.6 million and \$3.7 million, respectively	340.0	324.9
Inventories:		
Raw materials	103.9	111.8
Work in process	26.1	28.3
Finished goods	238.1	234.2
	368.1	374.3
Prepaid expenses	19.3	18.4
Other current assets	10.9	10.1
Tax refunds receivable	8.2	8.0
Deferred tax assets	—	28.1
Total current assets	771.4	822.8
Property and Equipment, at Cost:		
Land	16.9	17.9
Buildings and improvements	108.9	118.5
Machinery and equipment	339.5	297.8
	465.3	434.2
Less accumulated depreciation	236.3	196.2
Total property and equipment, net	229.0	238.0
Other Assets:		
Goodwill	505.5	474.3
Intangible assets, less accumulated amortization of \$278.4 million and \$210.9 million, respectively	609.1	642.6
Deferred debt expense	13.5	17.3
Restricted investments	0.9	0.9
Other assets	14.5	13.2
	1,143.5	1,148.3
Total Assets	\$ 2,143.9	\$ 2,209.1

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

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Continued)

(Dollar amounts in millions, except shares data)

	December 31,	
	2015	2014
Liabilities and Stockholders' Investment		
Current Liabilities:		
Short-term bank obligations	\$ 0.5	\$ 0.6
Current maturities of long-term debt	6.9	6.3
Accounts payable	269.2	288.8
Accrued expenses, taxes, and deferred revenue	214.5	222.4
Total current liabilities	491.1	518.1
Other Liabilities:		
Deferred income taxes	76.9	123.5
Other	178.5	185.9
	255.4	309.4
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities	1,385.1	1,339.4
Commitments and Contingencies (Note 6)		
Stockholders' Investment:		
Preferred stock, \$0.01 par value, 10,000,000 authorized shares; none issued and outstanding at December 31, 2015 and 2014	—	—
Common stock, \$0.01 par value, 90,000,000 authorized shares; 17,041,710 shares issued and 16,986,493 shares issued at December 31, 2015 and 2014, respectively	0.2	0.2
Additional paid-in capital	256.8	249.4
Accumulated deficit	(143.8)	(117.1)
Accumulated other comprehensive loss	(42.5)	(35.7)
Less: Treasury stock at cost, 782,670 shares and 732,340 shares at December 31, 2015 and 2014, respectively	(58.4)	(54.6)
Total stockholders' investment	12.3	42.2
Total Liabilities and Stockholders' Investment	\$ 2,143.9	\$ 2,209.1

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

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions)</i>		
Cash flows from operating activities:			
Net loss	\$ (26.7)	\$ (45.6)	\$ (8.3)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation expense	50.4	43.2	40.6
Amortization expense, including increase to cost of revenues for inventory acquired in business combinations	67.8	62.2	54.6
Non-cash impairment charges	1.6	80.4	4.3
Loss from debt retirement	14.8	2.3	—
Change in fair value of contingent consideration liability	(3.5)	—	—
Non-cash interest expense, net	3.1	2.5	2.4
Non-cash share-based compensation expense	5.4	6.2	10.5
Excess tax benefit on share-based awards	(0.4)	(3.2)	—
Loss (gain) on sale of assets	2.2	(0.3)	0.6
Deferred income tax benefit	(21.3)	(38.1)	(7.7)
Changes in certain assets and liabilities, net of effects from acquisitions:			
Accounts receivable, net	(20.6)	(32.6)	5.8
Inventories	2.4	(82.5)	(0.7)
Prepaid and other current assets	1.3	4.4	(2.1)
Accounts payable	(15.2)	63.0	23.7
Accrued expenses, taxes, and deferred revenue	(1.4)	(15.0)	29.0
Long-term assets, liabilities and other, net	(10.8)	(9.3)	(17.5)
Total adjustments to net loss	<u>75.8</u>	<u>83.2</u>	<u>143.5</u>
Net cash provided by operating activities	<u>49.1</u>	<u>37.6</u>	<u>135.2</u>
Cash flows from investing activities:			
Capital expenditures	(44.8)	(38.9)	(43.8)
Net cash paid for businesses acquired and dispositions	(64.7)	(267.9)	(146.4)
Net cash paid for acquisition of assets	(6.0)	—	—
Proceeds from the sale of property and equipment	1.1	1.7	0.2
Change in restricted cash and marketable securities	0.3	0.4	(2.4)
Other, net	(0.5)	(1.4)	(0.9)
Net cash used in investing activities	<u>(114.6)</u>	<u>(306.1)</u>	<u>(193.3)</u>
Cash flows from financing activities:			
Proceeds from ABL and other borrowings	454.5	253.2	153.1
Payment of ABL and other borrowings	(417.6)	(258.1)	(156.0)
Redemption of the 10% Senior Notes due 2018, including redemption premium	(262.5)	—	—
Net proceeds from borrowings under the senior secured term loan facility due 2020	261.8	349.1	—
Redemption of the senior secured term loan facility due 2017	—	(93.0)	—
Fees paid in connection with debt facilities	(2.7)	(6.3)	—
Net use from equity transactions	(2.2)	(2.1)	(2.5)
Excess tax benefit on share-based awards	0.4	3.2	—
Other, net	—	—	(0.3)
Net cash provided by (used in) financing activities	<u>31.7</u>	<u>246.0</u>	<u>(5.7)</u>
Net change in unrestricted cash and cash equivalents	(33.8)	(22.5)	(63.8)
Unrestricted cash and cash equivalents at the beginning of the period	58.4	80.9	144.7
Unrestricted cash and cash equivalents at the end of the period	<u>\$ 24.6</u>	<u>\$ 58.4</u>	<u>\$ 80.9</u>

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

NORTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT

	Common Stock		Treasury Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Investment
	Nominal Value	Number	Nominal Value	Number				
	<i>(Dollar amounts in millions)</i>							
Balance, December 31, 2012	\$ 0.1	16,026,374	\$ (9.5)	172,685	\$ 189.1	\$ (63.2)	\$ (22.3)	\$ 94.2
Net loss	—	—	—	—	—	(8.3)	—	(8.3)
Other comprehensive earnings	—	—	—	—	—	—	6.0	6.0
Issuance of restricted stock	—	139,345	—	—	—	—	—	—
Forfeitures of unvested restricted stock	—	(136,192)	—	—	—	—	—	—
Exercise of stock options	0.1	74,430	—	—	1.5	—	—	1.6
Warrants exercised	—	46,837	—	—	2.5	—	—	2.5
Shares withheld and repurchased related to minimum statutory tax withholding requirements and shares repurchased to net share settlements	—	—	(6.6)	90,460	—	—	—	(6.6)
Share-based compensation expense	—	—	—	—	10.5	—	—	10.5
Balance, December 31, 2013	\$ 0.2	16,150,794	\$ (16.1)	263,145	\$ 203.6	\$ (71.5)	\$ (16.3)	\$ 99.9
Net loss	—	—	—	—	—	(45.6)	—	(45.6)
Other comprehensive loss	—	—	—	—	—	—	(19.4)	(19.4)
Issuance of restricted stock	—	157,932	—	—	—	—	—	—
Forfeitures of unvested restricted stock	—	(83,508)	—	—	—	—	—	—
Exercise of stock options	—	131,974	—	—	3.2	—	—	3.2
Warrants exercised	—	629,301	—	—	33.2	—	—	33.2
Shares withheld and repurchased related to minimum statutory tax withholding requirements and shares repurchased to net share settlements	—	—	(38.5)	469,195	—	—	—	(38.5)
Share-based compensation expense	—	—	—	—	6.2	—	—	6.2
Excess tax benefit on share-based awards	—	—	—	—	3.2	—	—	3.2
Balance, December 31, 2014	\$ 0.2	16,986,493	\$ (54.6)	732,340	\$ 249.4	\$ (117.1)	\$ (35.7)	\$ 42.2
Net loss	—	—	—	—	—	(26.7)	—	(26.7)
Other comprehensive loss	—	—	—	—	—	—	(6.8)	(6.8)
Issuance of restricted stock	—	69,076	—	—	—	—	—	—
Forfeitures of unvested restricted stock	—	(65,813)	—	—	—	—	—	—
Exercise of stock options	—	51,954	—	—	1.6	—	—	1.6
Shares withheld and repurchased related to minimum statutory tax withholding requirements and shares repurchased to net share settlements	—	—	(3.8)	50,330	—	—	—	(3.8)
Share-based compensation expense	—	—	—	—	5.4	—	—	5.4
Excess tax benefit on share-based awards	—	—	—	—	0.4	—	—	0.4
Balance, December 31, 2015	\$ 0.2	17,041,710	\$ (58.4)	782,670	\$ 256.8	\$ (143.8)	\$ (42.5)	\$ 12.3

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

NORTEK, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Nortek, Inc. ("Nortek") and all of its wholly owned subsidiaries, collectively the "Company," is a global, diversified company whose many market-leading brands deliver broad capabilities and a wide array of innovative, technology-driven products and solutions for lifestyle improvement at home and at work. Operating within five principal reporting segments (see Note 9, "*Segment Information and Concentration of Credit Risk*"), the Company manufactures and sells, primarily in the United States, Canada and Europe, with additional manufacturing in China and Mexico, a wide variety of products principally for the remodeling and replacement markets, the residential and commercial new construction markets, and the personal and enterprise computer markets.

The accompanying consolidated financial statements reflect the financial position, results of operations, comprehensive income (loss), and cash flows of the Company after elimination of intercompany accounts and transactions. As a result of certain acquisitions and a disposition as discussed in Note 2, "*Acquisitions and Dispositions*", the operating results of these acquired entities are included in the Company's consolidated results of operations from the date of acquisition prospectively and the results of operations from dispositions are excluded commencing on the date of disposition. The Company has entered into certain arrangements with an independent third party in Mexico related to the Company's manufacturing operations in Mexico. The Company has evaluated the operating entities that were formed under these arrangements and has determined that these entities are variable interest entities in accordance with Accounting Standards Codification ("ASC") 810, "Consolidation" ("ASC 810"). The Company has concluded that it is the primary beneficiary of these entities since it has both the power to direct activities that most significantly impact the entities' economic performance and the obligation to absorb losses that could potentially be significant since the Company is responsible for all operating decisions and all operating costs of these entities. As a result, the Company is consolidating the results of these entities in accordance with ASC 810. For the years ended December 31, 2015 and 2014, the results of operations of these entities included in the Company's statement of operations were not material.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation.

During the second quarter of 2015, the Company transferred the management of its UK commercial HVAC subsidiary from the Custom and Commercial Air Solutions ("CAS") segment to the Residential and Commercial HVAC ("RCH") segment. This UK subsidiary did not have any goodwill or other long-lived assets; as such, the Company was not required to perform a long-lived asset impairment analysis. Additionally, during the second quarter of 2014, the Company changed the composition of its reporting segments to exclude the audio, video and control ("AVC") entities (formerly the "AV entities") from the Security and Control Solutions ("SCS") segment due to the Chief Operating Decision Maker's decision to operate each of these entities separately and manage each as a standalone segment. The AVC entities have been combined and have not been reported separately as these operating segments are individually not significant (the "AVC segments"). See Note 3, "*Goodwill and Other Intangible Assets*". As a result of these changes, the Company has restated prior period segment disclosures to conform to the new composition.

Accounting Policies and Use of Estimates

The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles involves estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expense during the reporting periods. 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 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.

NORTEK, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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Recognition of Sales and Related Costs, Incentives and Allowances

The Company generally recognizes sales when passage of title and risk of loss to the customer occurs, which is typically upon shipment, and has procedures in place at each of its subsidiaries to ensure that an accurate cut-off is obtained for each reporting period. The Company considers revenue to be realized or realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured.

Certain of the Company's arrangements with its customers, principally in the CAS segment, are multiple-element arrangements that can include any combination of products and services such as extended warranties, installation and start up testing as deliverables. With the exception of certain extended warranty arrangements, substantially all of the deliverables within the Company's multiple element arrangements are delivered within a one year period. In accordance with ASC 605-25, "Revenue Recognition", the Company believes that any undelivered elements can be accounted for separately from the delivered element when the delivered elements have value to its customers on a stand-alone basis. Accordingly, revenue for an undelivered-element is deferred until delivery occurs. The Company is required to allocate revenue to multiple element arrangements based on the relative fair value of each element's estimated selling price. The Company uses vendor-specific objective evidence ("VSOE"), if available, to determine the selling price of each element. The Company determines VSOE based on its normal pricing and discounting practices for the specific product or service when sold on a stand-alone basis. In determining VSOE, the Company's policy requires a substantial majority of selling prices for a product or service to be within a reasonably narrow range. The Company also considers the class of customer, method of distribution, and the geographies into which its products and services are sold when determining VSOE. If VSOE is not available, the Company uses third-party evidence or its best estimated selling price to determine the selling price for each element.

Allowances for cash discounts, volume rebates, other customer incentive programs and gross customer returns, among others, are recorded as of the later of the date at which the revenues are recognized or the incentive is offered and are generally recorded as a reduction of sales at the time of sale based upon the estimated future outcome. Certain customer incentives are recorded as a charge to selling, general and administrative expense, net ("SG&A") if there is a separable, identifiable benefit related to the incentive that can be quantified. These customer incentives principally relate to promotional advertising allowances where the customer is required to obtain approval and provide support for the associated advertising expenditures in order to receive the incentive consideration. Cash discounts, volume rebates and other customer incentive programs are based upon certain percentages agreed to with the Company's various customers, which are typically earned by the customer over an annual period. The Company records periodic estimates for these amounts based upon the historical results to date, estimated future results through the end of the contract period, and the contractual provisions of the customer agreements. For calendar year customer agreements, the Company is able to adjust its periodic estimates to actual amounts as of December 31 each year based upon the contractual provisions of the customer agreements. For those customers who have agreements that are not on a calendar year cycle, the Company records estimates at December 31 consistent with the above described methodology. Customers are generally not required to provide collateral for purchases. As a result, at the end of any given reporting period, the amounts recorded for these allowances are based upon estimates of the likely outcome of future sales with the applicable customers and may require adjustment in the future if the actual outcome differs. The Company believes that its procedures for estimating such amounts are reasonable.

Certain of the Company's arrangements provide for rights of returns. Customer returns are recorded on an actual basis throughout the year and also include an estimate at the end of each reporting period for future customer returns related to sales recorded prior to the end of the period. The Company generally estimates customer returns based upon the time lag that historically occurs between the date of the sale and the date of the return, while also factoring in any new business conditions that might impact the historical analysis, such as new product introductions. The Company believes that its procedures for estimating such amounts are reasonable and allow it to make reliable estimates which are based on a historical large, homogeneous pool of transactions and history of returns. If a reliable estimate of returns cannot be made, the Company defers revenues until the right of return lapses. If the Company defers the recognition of arrangement consideration due to the fact that the criteria for revenue recognition are not achieved, the Company also defers the recognition of the related direct and incremental costs, primarily product costs, and recognizes such costs upon recognition of the corresponding deferred revenues.

On June 30, 2015, one of the Company's wholly-owned subsidiaries completed the acquisition of certain assets and liabilities related to the mobile personal emergency response system and telehealth business of Numera, Inc. ("Numera"), a privately held company, to expand its technology and product offerings of the SCS segment. Refer to Note 2, "*Acquisitions and Dispositions*",

NORTEK, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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for further discussions related to this acquisition. Due to the fact that the fees that Numera receives for hardware sales and related hardware activations were not deemed separate units of accounting, these fees are deferred and recognized ratably over the estimated period of economic benefit which has been initially determined to be three years. In addition, Numera capitalizes the direct and incremental costs related to hardware and activation sales and recognizes these costs over the same period that the associated revenue is recognized. As of December 31, 2015, Numera had approximately \$2.8 million of deferred revenue and approximately \$2.2 million of deferred cost of revenues.

With the exception of deferred cost of revenues related to Numera discussed above, the amount of deferred cost of revenues at December 31, 2015 and 2014, respectively, was not material.

The Company also provides for its estimate of warranty, bad debts and shipping costs at the time of sale. Shipping and warranty costs are included in cost of revenues. Provisions for the estimated allowance for doubtful accounts are recorded in SG&A. The amounts recorded are generally based upon historically derived percentages while also factoring in any new business conditions that might impact the historical analysis such as changes in economic conditions, past due and nonperforming accounts, bankruptcies or other events affecting particular customers. The Company periodically evaluates the adequacy of its allowance for doubtful accounts recorded in its consolidated balance sheet to ensure the adequacy of the recorded provisions. The analysis for allowance for doubtful accounts often involves subjective analysis of a particular customer's ability to pay. As a result, significant judgment is required in determining the appropriate amounts to record and such judgments may prove to be incorrect in the future. The Company believes that its procedures for estimating such amounts are reasonable.

Cash and Cash Equivalents

Cash equivalents consist of short-term highly liquid investments with original maturities of three months or less which are readily convertible into cash.

The Company has classified as restricted in the accompanying consolidated balance sheet certain cash and cash equivalents that are not fully available for use in its operations. At December 31, 2015 and 2014, the Company had cash and cash equivalents pledged as collateral or held in pension trusts for certain debt, insurance, employee benefits and other requirements of approximately \$1.2 million (of which approximately \$0.9 million is included in long-term assets) and approximately \$1.5 million (of which approximately \$0.9 million is included in long-term assets), respectively.

Inventories

Inventories in the accompanying consolidated balance sheet are valued at the lower of cost or market. At December 31, 2015, approximately \$126.6 million of the Company's total inventories were valued on the last-in, first-out method ("LIFO") of accounting. Under the first-in, first-out method ("FIFO"), such inventories would have been approximately \$2.2 million lower at December 31, 2015. At December 31, 2014, approximately \$127.7 million of the Company's total inventories were valued under LIFO. Under FIFO, such inventories would have been approximately \$1.7 million lower at December 31, 2014. All other inventories were valued under the FIFO method.

In connection with both LIFO and FIFO inventories, the Company records provisions, as appropriate, to write-down obsolete and excess inventory to estimated net realizable value. The process for evaluating obsolete and excess inventory often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities, and prices at which such inventory will be able to be sold in the normal course of business. Accelerating the disposal process or incorrect estimates of future sales potential may cause the actual results to differ from the estimates at the time such inventory is disposed or sold.

Inventory acquired in business combinations is recorded to cost of revenues over the period in which the inventory will be sold.

NORTEK, INC. AND SUBSIDIARIES
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Depreciation and Amortization

Depreciation and amortization of property and equipment, including capital leases, is provided on a straight-line basis over their estimated useful lives, which are generally as follows:

Buildings and improvements	3 - 43 years
Machinery and equipment, including leases	1 - 13 years
Leasehold improvements	Shorter of the original lease term or the estimated useful life

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals and betterments are capitalized. When assets are sold, or otherwise disposed, the cost and related accumulated depreciation are eliminated and the resulting gain or loss is recognized.

Goodwill and Other Intangible Assets

The Company accounts for acquired goodwill in accordance with ASC 805, "Business Combinations" ("ASC 805") and ASC 350, "Intangibles - Goodwill and Other" ("ASC 350"), which involves judgment with respect to the determination of the valuation of the acquired assets and liabilities assumed in order to determine the final amount of goodwill recorded in a purchase. See Note 3, "*Goodwill and Other Intangible Assets*", for a discussion of these judgments.

Pensions and Post-Retirement Health Benefits

The Company accounts for pensions and post-retirement health benefits in accordance with ASC 715, "Compensation - Retirement Benefits," ("ASC 715"). The accounting for pensions requires the estimation of items such as the long-term average return on plan assets, the discount rate, the rate of compensation increase, and the assumed medical cost inflation rate. Such estimates require a significant amount of judgment. See Note 13, "*Pension, Profit Sharing and Other Post-Retirement Benefits*", for a discussion of these judgments.

Insurance Liabilities

The Company records insurance liabilities and related expenses for health, workers compensation, product and general liability losses, and other insurance reserves and expenses in accordance with either the contractual terms of its policies or, if self-insured, the total liabilities that are estimable and probable as of the reporting date. Insurance liabilities are recorded as current liabilities to the extent they are expected to be paid in the succeeding year, with the remaining requirements classified as long-term liabilities. The accounting for self-insured plans requires that significant judgments and estimates be made both with respect to the future liabilities to be paid for known claims, and incurred but not reported claims as of the reporting date. The Company considers historical trends when determining the appropriate insurance liabilities to record in the consolidated balance sheet for a substantial portion of its workers compensation and general and product liability losses. In certain cases where partial insurance coverage exists, the Company must estimate the portion of the liability that will be covered by existing insurance policies to arrive at the net expected liability to the Company. Recoverables for insurance recoveries for product liability claims are recorded as assets, on an undiscounted basis. These recoveries are estimated based on the contractual arrangements with vendors and other third parties, and historical trends.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with ASC 740, "Income Taxes" ("ASC 740"), which requires that the deferred tax consequences of temporary differences between the amounts recorded in the Company's consolidated financial statements, and the amounts included in the Company's federal, state and foreign income tax returns, be recognized in the balance sheet. As the Company generally does not file its income tax returns until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual income tax returns are filed for that fiscal year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that Nortek and its subsidiaries are required to file, the potential utilization of operating and capital loss carry-forwards, and valuation allowances required, if any, for tax assets that may not be realizable in the future. As discussed further below, the Company adopted Accounting Standards Update ("ASU") No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU

NORTEK, INC. AND SUBSIDIARIES
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2015-17") at December 31, 2015 and as such, all deferred tax assets and liabilities are recorded to long-term. Prior to the Company's adoption of ASU 2015-17, ASC 740 required balance sheet classification of current and long-term deferred income tax assets and liabilities based upon the classification of the underlying asset or liability that gave rise to a temporary difference (see Note 8, "*Income Taxes*"). The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for income taxes.

Share-Based Compensation Expense

The Company measures share-based compensation expense at fair value in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC 718"), and recognizes such expense, net of estimated forfeitures, over the vesting period of the share-based awards. See Note 12, "*Share-Based Compensation*", for further information regarding the Company's share-based compensation programs.

Exit and Disposal Activities

The Company accounts for termination benefits based on the nature of the underlying arrangement. In instances where the Company has a defined plan, a past practice of providing a similar level of benefits or a statutorily defined termination benefit arrangement, the Company recognizes a liability for ongoing termination benefits when it is probable the employees will be entitled to the benefits and the amount can be reasonably estimated.

In instances where the Company provides termination benefits and an ongoing arrangement does not exist, the timing of measurement of a liability for one-time employee termination benefits depends on whether employees are required to render service until they are terminated in order to receive the termination benefits and, if so, whether employees will be retained to render service beyond a minimum retention period. If employees are not required to render service until they are terminated in order to receive the termination benefits (that is, if employees are entitled to receive the termination benefits regardless of when they leave) or if employees will not be retained to render service beyond the minimum retention period, a liability for the termination benefits is measured and recognized at its fair value at the communication date. If employees are required to render service until they are notified in order to receive the termination benefits and will be retained to render service beyond the minimum retention period, a liability for the termination benefits is measured initially at the communication date based on the fair value of the liability as of the termination date and recognized ratably over the future service period.

A liability, measured at its fair value, for costs to terminate a contract before the end of its term is recognized when the Company terminates the contract in accordance with the contract terms. A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the Company is recognized at the cease-use date. If the contract is an operating lease, the fair value of the liability at the cease-use date is determined based on the remaining lease rentals, adjusted for the effects of any prepaid or deferred items recognized under the lease, and reduced by estimated sublease rentals that could be reasonably obtained for the property, even if the Company does not intend to enter into a sublease. Remaining lease rentals are not reduced to an amount less than zero.

Other costs associated with an exit or disposal activity include, but are not limited to, costs to consolidate or close facilities and relocate employees. A liability for other costs associated with an exit or disposal activity is measured and recognized at its fair value in the period in which the liability is incurred (generally, when goods or services associated with the activity are received).

See Note 5, "*Exit and Disposal Activities*", for further information regarding the Company's exit and disposal activities.

Commitments and Contingencies

The Company provides accruals for all direct costs, including legal costs, associated with the estimated resolution of contingencies at the earliest date at which it is deemed probable that a liability has been incurred and the amount of such liability can be reasonably estimated. Costs accrued are estimated based upon an analysis of potential results, assuming a combination of litigation and settlement strategies and outcomes. Legal costs for other than probable contingencies are expensed when services are performed. See Note 6, "*Commitments and Contingencies*", for further information regarding the Company's commitments and contingencies.

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Research and Development

The Company's research and development activities are principally related to new product development. Recorded in SG&A, research and development costs were approximately \$77.7 million, \$75.4 million and \$65.5 million for 2015, 2014 and 2013, respectively, and represented approximately 3.1%, 3.0%, and 2.9% of the Company's consolidated net sales for 2015, 2014 and 2013, respectively.

Foreign Currency Translation

The financial statements of subsidiaries located outside of the United States are generally measured using the foreign subsidiary's local currency as the functional currency. The financial statements of the Company's international subsidiaries are translated in accordance with ASC 830, "Foreign Currency Matters" ("ASC 830"). The Company translates the assets and liabilities of its foreign subsidiaries at the exchange rates in effect at year-end. Before translation, the Company re-measures foreign currency denominated assets and liabilities, including certain inter-company accounts receivable and payable that have been determined to not be of a "long-term investment" nature, as defined by ASC 830, into the functional currency of the respective entity, resulting in unrealized gains or losses recorded in the consolidated statements of operations. Net sales, costs and expenses are translated using average exchange rates in effect during the year. Gains and losses from foreign currency translation are credited or charged to accumulated other comprehensive income (loss) included in stockholders' investment. Transaction gains and losses and the remeasurement of certain intercompany receivables and payables are recorded in SG&A. The Company has provided long-term intercompany funding to certain of its foreign subsidiaries, principally for acquisitions, that are deemed to be of a long-term investment nature with the resulting translation adjustments being recorded as a component of stockholders' equity within accumulated other comprehensive loss. The Company recorded a translation loss of approximately \$(4.8) million and \$(7.3) million in 2015 and 2014, respectively, and recorded a translation gain of approximately \$0.7 million in 2013 related to this long-term intercompany funding within accumulated other comprehensive loss.

New Accounting Pronouncements

On February 25, 2016, the Financial Accounting Standards Board ("FASB") issued its new leases standard, ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 is aimed at putting most leases on lessees' balance sheets, but it would also change aspects of lessor accounting. ASU 2016-02 is effective for public business entities for annual periods beginning after December 15, 2018 and interim periods within that year. As a result, the Company will adopt this standard effective January 1, 2019. This standard is expected to have a significant impact on the Company's current accounting for its lease arrangements, particularly its current operating lease arrangements, as well as, disclosures. The Company is currently evaluating the impact of adoption on its financial position and results from operations.

In November 2015, the FASB issued ASU 2015-17. ASU 2015-17 simplifies the classification of deferred income tax liabilities and assets on the balance sheet by requiring deferred tax liabilities and assets to be classified as non-current on the balance sheet rather than classifying them separately into current and non-current amounts. The guidance in ASU No. 2015-17 is effective for periods beginning after December 15, 2016 and early adoption is permitted. The Company early adopted this pronouncement in the fourth quarter of 2015 on a prospective basis. As a result, the Company has presented all deferred tax assets and liabilities as non-current on the accompanying consolidated balance sheet as of December 31, 2015, but has not reclassified current deferred tax assets and liabilities on the accompanying consolidated balance sheet at December 31, 2014. See Note 8, "Income Taxes", for further information regarding the adoption of this standard.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments* ("ASU 2015-16"), as part of its simplification initiative. Under ASU 2015-16, an acquirer would be required to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Further, the acquirer must record, in the financial statements for the same period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Under ASU 2015-16, entities must also present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance in ASU No. 2015-16 is effective for periods beginning after December 15, 2015 and should be applied prospectively to adjustments to provisional amounts that occur after the effective date. Early adoption is permitted for financial statements that have not been issued. The

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Company adopted this pronouncement in the third quarter of 2015 and the adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330) - Simplifying the Measurement of Inventory* ("ASU 2015-11"), which simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out ("LIFO") and the retail inventory method. The guidance in ASU No. 2015-11 is effective for periods beginning after December 15, 2016 and early adoption is permitted. The Company will adopt this pronouncement in the first quarter of 2017 and is currently evaluating the impact, if any, adoption will have on its financial position and results of operations.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40) - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"), which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. Consequently, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. ASU 2015-05 will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company will adopt this pronouncement prospectively in the first quarter of 2016 and is currently evaluating the impact, if any, adoption will have on its financial position and results of operations.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which provides guidance on simplifying the presentation of debt issuance costs on the balance sheet. To simplify presentation of debt issuance costs, the amendments in ASU No. 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In August 2015, the FASB issued ASU No. 2015-15, *Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update)* ("ASU 2015-15"), to address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Under ASU 2015-15, entities are permitted to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of credit-arrangement. ASU 2015-03 and ASU 2015-15 are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period and early adoption is permitted for financial statements that have not yet been previously issued. In accordance with ASU 2015-03 and ASU 2015-15, companies should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The Company will adopt these pronouncements in the first quarter of 2016. Adoption is not expected to have a material effect on the Company's consolidated financial statements, but will affect balance sheet presentation.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"). The amendments of ASU No. 2015-02 were issued in an effort to minimize situations under previously existing guidance in which a reporting entity was required to consolidate another legal entity in which that reporting entity did not have: (1) the ability through contractual rights to act primarily on its own behalf; (2) ownership of the majority of the legal entity's voting rights; or (3) the exposure to a majority of the legal entity's economic benefits. ASU No. 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The guidance in ASU No. 2015-02 is effective for periods beginning after December 15, 2015 and early adoption is permitted. The Company will adopt this pronouncement in the first quarter of 2016. Adoption is not expected to have a material effect on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40)* ("ASU 2014-15"), which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments require

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management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term "substantial doubt", (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company will adopt this pronouncement for the year ended December 31, 2016 and does not expect adoption to have a material effect on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718)* ("ASU 2014-12"), which clarifies the accounting for share based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. ASU 2014-12 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted and an entity may apply the amendments in ASU 2014-12 either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company adopted this pronouncement in the third quarter of 2015 and the adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle under ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. On July 9, 2015, the FASB decided to defer the effective date for this standard to annual periods beginning after December 15, 2017 and interim periods therein. Early adoption is permitted, but not before January 1, 2017, and an entity may apply the amendments in ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 at the date of initial application. Currently, the Company is evaluating both the method of adoption and the impact adoption will have on its consolidated financial statements. In evaluating the method of adoption, the Company is considering a number of factors, including the disclosure requirements and related processes and controls required, as well as, the overall industry and peer public company adoption method trends.

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"), which changes the criteria for reporting discontinued operations. ASU 2014-08 also requires additional disclosures about discontinued operations including, among others, the major classes of line items constituting the pretax profit and loss of the discontinued operation, either the total operating and investing cash flow of the discontinued operation or the depreciation, amortization, capital expenditures, and significant operating and investing non-cash items of the discontinued operation, a reconciliation of the major classes of assets and liabilities of the discontinued operation classified as held for sale to total assets and total liabilities of the disposal group classified as held for sale that is presented on the face of the balance sheet, and a reconciliation of the major classes of line items constituting the pretax profit or loss of the discontinued operation to the after-tax profit or loss of the discontinued operation that is presented on the face of the income statement. ASU 2014-08 also requires entities to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation and expands the disclosures about an entity's significant continuing involvement with a discontinued operation. ASU 2014-08 is effective prospectively for both (1) disposals of components of an entity and (2) businesses that, on acquisition are classified as held for sale, that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The Company adopted this standard in the first quarter of 2015. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

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2. ACQUISITIONS AND DISPOSITIONS

Acquisitions

Anthro Acquisition

On January 21, 2015, one of the Company's subsidiaries in the Ergonomic and Productivity Solutions ("ERG") segment completed the acquisition of all of the outstanding stock of Anthro Corporation ("Anthro"), a fully integrated business with in-house capability to design/develop, manufacture and market its technology furniture products. Anthro's key products include charging carts (for electronics, including tablets, laptops and other mobile devices) and height adjustable desks and technology carts. Anthro has been integrated into the Company's ERG segment. The Company completed the acquisition of Anthro to expand its technology and product offerings of the ERG segment.

The Company acquired this business for an initial aggregate purchase price of approximately \$51.0 million, of which approximately \$50.8 million was paid in cash and an additional \$0.2 million related to the amount of consideration being paid in excess of the fair value of certain services provided by the former stockholders of Anthro. Approximately \$5.0 million of the purchase price is held in escrow to cover general business representations and warranties. This amount will be paid 18 months after the closing date. During the third quarter of 2015, the Company received approximately \$0.7 million for working capital and other purchase price adjustments. As a result, the final adjusted purchase price was approximately \$50.3 million. Acquisition-related costs were expensed as incurred within selling, general and administrative expense, net in the Company's consolidated statement of operations and were not material.

The Company made preliminary estimates of the fair value of the assets and liabilities of Anthro, including certain tangible and intangible assets and liabilities, utilizing information available at the time and these estimates are subject to refinement until all pertinent information has been obtained. These non-recurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are classified within Level 3 of the fair value hierarchy. During the fourth quarter of 2015, as a result of gathering additional information from the time of the acquisition related to certain acquired contingent liabilities, the Company recorded a measurement period adjustment of approximately \$0.1 million to reflect the increase in the fair value of the acquired contingent liability with a corresponding increase to goodwill.

The Company determined that the fair value of tangible net assets acquired was approximately \$5.1 million, including cash of approximately \$0.6 million and a fair value adjustment related to inventory acquired of approximately \$0.5 million which was recognized in cost of revenues during the first quarter of 2015. In addition, approximately \$19.6 million was recognized for definite-lived intangible assets, and approximately \$25.6 million was recorded to goodwill.

The following is a summary of the estimated fair values and weighted average useful lives by intangible asset class (dollar amounts in millions):

	Fair Value	Weighted Average Useful Lives
Developed technology	\$ 13.3	4.0
Customer relationships	2.2	4.5
Trade names	3.9	5.0
Favorable lease arrangements	0.2	3.0
	<u>\$ 19.6</u>	<u>4.3</u>

The factors contributing to the recognition of goodwill were based upon the Company's determination that several strategic and synergistic benefits are expected to be realized from the combination. This transaction was treated for U.S. federal and applicable state and local income tax purposes as a taxable purchase of assets. Therefore, substantially all of the goodwill is expected to be deductible for tax purposes.

The results of Anthro have been included in the Company's consolidated financial statements since the date of acquisition within the ERG segment. Pro forma results related to the acquisition of Anthro have not been presented, as the effect is not significant to the Company's consolidated operating results.

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Numera Acquisition

On June 30, 2015, one of the Company's wholly-owned subsidiaries completed the acquisition of certain assets and liabilities of Numera for an aggregate initial all cash purchase price of approximately \$12.0 million, of which approximately \$1.5 million was deposited into an escrow account with a third party escrow agent. The acquired operations have been integrated into the Company's Security and Controls Solutions ("SCS") segment. The Company completed the acquisition to expand its technology and product offerings of the SCS segment.

In addition to the initial purchase price consideration, the Company could be required to pay an additional purchase price of up to \$28.0 million, which is based on the amount by which future sales, as defined under the purchase agreement, exceed \$12.1 million during the period from March 29, 2015 through March 26, 2016 ("earn-out period"). The fair value of the contingent consideration at the acquisition date was determined to be approximately \$3.7 million resulting in a total purchase price of approximately \$15.7 million. The Company recorded its estimate of the fair value of the contingent consideration based on the evaluation of the likelihood of the achievement of the contractual conditions that would result in the payment of the contingent consideration. The Company's fair value of the contingent consideration was determined using an option pricing model. The real option approach methodology applies option pricing theory to a "real" stream, such as revenue. Utilization of this methodology allows running a high number of simulations and therefore, the Company believes that this valuation methodology was most appropriate.

The Company notes that the key Level 3 inputs utilized in determining the fair value were:

- Forecasted revenue, including forecasts of 10th and 90th percentiles
- Real option approach methodology simulation inputs, including volatility, risk premiums and betas, which are utilized to derive the total market risk adjustment in the real option approach valuation model simulations
- Comparable company analysis, which is utilized to support and determine the reasonableness of certain of the option simulation inputs
- Discount factor, which is utilized to present value the risk-adjusted expected earn-out payment

During the fourth quarter of 2015, based on consideration of Numera's post acquisition revenues during the earn-out period, as well as forecasts for the remainder of the earn-out period which were impacted by certain short-term delays in customer purchases, the Company determined that there was a decrease in the fair value of the contingent consideration liability. At December 31, 2015, the Company determined that the fair value of the contingent consideration liability was approximately \$0.2 million and, as a result, recorded a benefit to selling, general and administrative expense, net of approximately \$3.5 million in the fourth quarter of 2015. The fair value was determined utilizing a consistent valuation methodology with the acquisition date valuation methodology. Given the revenues to date, the fact that the remaining duration of the earn-out period is only approximately three months and that there is no significant level of backlog, the Company determined that the likelihood of any prospective material change in fair value of the contingent consideration liability is remote.

Acquisition-related costs were expensed as incurred within SG&A in the Company's consolidated statement of operations and were not material.

Based on the Company's evaluation of the assets and liabilities acquired, the Company determined that the fair value of tangible net assets acquired was approximately \$0.3 million, principally related to certain prepaids, inventory, and property and equipment. In addition, approximately \$11.0 million was recognized for definite-lived intangible assets, and approximately \$4.4 million was recorded to goodwill. Substantially all of the goodwill is expected to be deductible for tax purposes.

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The following is a summary of the estimated fair values and weighted average useful lives by intangible asset class (dollar amounts in millions):

	Fair Value	Weighted Average Useful Lives
Developed technology	\$ 5.6	4.8
Customer relationships	4.0	5.8
Trade names	1.1	5.5
Non-compete arrangements	0.3	3.3
	<u>\$ 11.0</u>	<u>5.1</u>

The results of Numera have been included in the Company's consolidated financial statements since the date of acquisition within the SCS segment. Pro forma results related to the acquisition of Numera have not been presented, as the effect is not significant to the Company's consolidated operating results.

Assumption of Distribution Centers

Effective December 31, 2015, the Company assumed control of certain U.S. dedicated distribution centers that had been operated by a third party logistics provider since 2013. As a result, on December 31, 2015, the Company assumed the operating lease arrangements for these distribution centers, as well as purchased certain machinery and equipment utilized in the operation of these distribution centers that was owned and operated by the third party for approximately \$5.0 million. The Company determined that this transaction did not represent a business combination under ASC 805 due to the fact that there were certain inputs and processes that were not acquired which were more than insignificant. As a result, the Company recognized the purchase price of approximately \$5.0 million for the acquired machinery and equipment and recorded these assets within machinery and equipment in its consolidated balance sheet. These assets are being depreciated over their remaining estimated useful lives of approximately 2.5 years.

The operating leases that the Company assumed had lease rates that were consistent with current market rates and had initial remaining lease terms of approximately 1 to 3 years and contain renewal options ranging from an additional 3 to 15 years. Rental payments during the renewal terms are based on market rates at the date of renewal and therefore do not represent bargain renewal options. The operating lease arrangements contain escalating rental payments that will result in the rental expense being straight-lined over the remaining initial lease terms in accordance with ASC 840, "Leases", and also contain obligations to pay insurance and taxes. There are no significant restoration or other obligations under the lease arrangements that would represent material asset retirement obligations. The future minimum lease payments for these operating leases is as follows:

Year Ended December 31,	Future Minimum Rental Obligations
	<i>(Dollar amounts in millions)</i>
2016	\$ 4.3
2017	4.1
2018	3.3

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Reznor Acquisition

On April 30, 2014, the Company completed the acquisition of the heating, ventilation and air conditioning business of Thomas & Betts Corporation ("Reznor") for approximately \$260.0 million in cash, plus additional payments of approximately \$2.6 million for working capital and other post-closing adjustments, of which approximately \$1.9 million was paid in the second quarter of 2014 and approximately \$0.7 million was paid during the fourth quarter of 2014. The acquisition was financed with a combination of cash on hand and a portion of the borrowings under a new \$350.0 million senior secured term loan facility (see Note 4, "Notes, Mortgage Notes and Obligations Payable").

Reznor manufactures industrial and commercial HVAC products, including an extended range of gas fired air heaters, air handling units, condensing units and rooftop units. The results of Reznor have been included in the Company's results of operations since the date of acquisition and have been included in the Company's RCH segment.

The following is a summary of the accounting for the fair value of the assets acquired and liabilities assumed (dollar amounts in millions):

Current assets (1)	\$	46.9
Property and equipment		17.0
Goodwill		103.8
Intangible assets		125.0
Current liabilities (2)		(18.8)
Deferred income taxes		(9.7)
Other long-term liabilities		(1.6)
	<u>\$</u>	<u>262.6</u>

- (1) Includes cash of approximately \$7.0 million, accounts receivable of approximately \$17.5 million, inventories of approximately \$20.5 million, prepaid and other current assets of approximately \$1.0 million, and current deferred taxes of approximately \$0.9 million. Inventories include a fair value adjustment to the historical carrying value of approximately \$1.8 million, which increased cost of revenues for 2014.
- (2) Includes accounts payable of approximately \$12.3 million and accrued expenses and taxes of approximately \$6.5 million.

The excess of the purchase price paid over the net assets acquired is recorded as goodwill, which is primarily attributable to the Company's belief that the acquisition of Reznor positions Nortek to service a broader portion of the HVAC market. Approximately \$76.1 million of goodwill associated with the acquisition will be deductible for income tax purposes. The Company completed its valuation process and the related accounting for this acquisition in the first quarter of 2015. There were no material changes to its provisional acquisition accounting.

The total fair value of intangible assets was approximately \$125.0 million. The Company has determined that all of the intangible assets are subject to amortization and that they will have no residual value at the end of the amortization periods. The following is a summary of the estimated fair values and weighted average useful lives by intangible asset class (dollar amounts in millions):

	Fair Value	Weighted Average Useful Lives
Customer relationships	\$ 64.8	11.1
Completed Technology	20.4	5.0
Trademarks	39.7	20.0
Other	\$ 0.1	3.8
	<u>\$ 125.0</u>	<u>12.9</u>

In connection with the acquisition of Reznor, the Company also incurred approximately \$6.8 million of fees and expenses, which have been recorded in selling, general and administrative expense, net ("SG&A") in the accompanying consolidated statement of operations for 2014.

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The unaudited pro forma net sales, operating earnings, net loss, basic and diluted loss per share, and depreciation and amortization expense for the Company as a result of the acquisition of Reznor for the years ended December 31, 2014 and 2013 were as follows (amounts in millions, except loss per share data):

	<u>2014</u>	<u>2013</u>
Net sales	\$ 2,598.2	\$ 2,447.1
Operating earnings	55.7	98.8
Net loss	(37.6)	(6.0)
Basic loss per share	(2.40)	(0.39)
Diluted loss per share	(2.40)	(0.39)
Depreciation & amortization expense	108.9	112.8

These amounts were determined assuming that the acquisition of Reznor had occurred on January 1, 2013 and include pro forma adjustments to reflect (i) additional depreciation and amortization expense related to the estimates of the fair values of acquired tangible and intangible assets, (ii) changes in interest expense related to financing transactions due, in part, to funding the acquisition, and (iii) other pro forma adjustments that the Company considered appropriate related to the acquisition of Reznor. The transaction costs incurred in 2014 of approximately \$6.8 million related to the acquisition of Reznor have been excluded from the unaudited pro forma operating earnings, net loss, and basic and diluted loss per share. These pro forma amounts are not necessarily indicative of the amounts that would have been achieved had the acquisition taken place as of January 1, 2013, nor are they necessarily indicative of the results for future periods.

The acquisition of Reznor contributed approximately \$162.7 million and \$117.0 million to net sales for 2015 and 2014, respectively, and approximately \$12.8 million (which includes depreciation and amortization expense of approximately \$17.2 million) and \$7.7 million (which includes depreciation and amortization expense of approximately \$12.3 million, including approximately \$1.8 million of increased cost of revenues due to the recognition of inventory at its acquisition date fair value) to operating earnings for 2015 and 2014, respectively.

Phoenix Acquisition

On October 8, 2014, one of the Company's subsidiaries in the RCH segment completed the acquisition of substantially all of the assets of the HVAC distribution business of privately owned Phoenix Wholesale, Inc. ("Phoenix").

The Company acquired this business for an aggregate purchase price of approximately \$13.9 million, all of which was paid in cash. Approximately \$1.6 million of the purchase price was retained by the Company as deferred acquisition consideration to be paid upon finalization of certain working capital and other purchase price adjustments and was included in accrued expenses, taxes, and deferred revenue in the Company's consolidated balance sheet as of December 31, 2014. These working capital and other purchase price adjustments were finalized and paid in February 2015. In addition, approximately \$1.0 million of the purchase price is held in escrow to cover general business representations and warranties. This amount will be paid 18 months after the closing date.

The Company completed its valuation process and the related accounting for this acquisition in the first quarter of 2015. There were no material changes to its provisional acquisition accounting.

The results of Phoenix have been included in the Company's consolidated financial statements since the date of acquisition within the RCH segment. Pro forma results related to the acquisition of Phoenix have not been presented, as the effect is not significant to the Company's consolidated operating results.

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2GIG Acquisition

On April 1, 2013, the Company acquired all of the outstanding common stock of 2GIG Technologies, Inc. ("2GIG") from APX Group, Inc. The purchase price was approximately \$164.2 million, which consisted of a cash payment at the date of acquisition of approximately \$135.0 million, working capital adjustments of approximately \$13.9 million (of which approximately \$12.3 million and \$1.6 million were paid during the second and third quarter of 2013, respectively) and the settlement of a receivable due from 2GIG to the Company as of the acquisition date of approximately \$15.3 million.

2GIG is a designer and supplier of residential security and home automation systems. Developed with the assistance of Nortek's Linear® business, 2GIG's Go!Control® touch-screen panel is a self-contained, all-in-one home security and automation control panel. 2GIG also provides wireless interactive home security services and a wide range of peripheral hardware devices and system components for home security and automation solutions. The results of 2GIG have been included in the Company's results of operations since the date of acquisition and have been included in the Company's SCS segment. During 2013, the operations of 2GIG were integrated into the Company's existing security and access control products business, as such, net sales and operating earnings for 2014 for 2GIG have not been presented separately.

The unaudited pro forma net sales, operating earnings, net loss, basic and diluted loss per share, and depreciation and amortization expense for the Company as a result of the acquisition of 2GIG for 2013 were as follows (amounts in millions, except loss per share data):

Net sales	\$ 2,319.9
Operating earnings	99.5
Net loss	(1.5)
Basic loss per share	(0.10)
Diluted loss per share	(0.10)
Depreciation & amortization expense	94.8

These amounts were determined assuming that the acquisition of 2GIG had occurred on January 1, 2013 and include pro forma adjustments to reflect (i) the elimination of intercompany transactions between the Company and 2GIG, (ii) additional depreciation and amortization expense related to acquired assets, (iii) increased interest expense related to the amounts borrowed to fund the acquisition and (iv) other pro forma adjustments that the Company considered appropriate related to the acquisition of 2GIG. The transaction costs of approximately \$1.8 million related to the acquisition of 2GIG for 2013 have been excluded from the unaudited pro forma operating earnings, net loss, and basic and diluted loss per share. These pro forma amounts are not necessarily indicative of the amounts that would have been achieved had the acquisition taken place as of January 1, 2013, nor are they necessarily indicative of the results for future periods.

Dispositions

Sale of TV One Business

In July 2015, the Company received an unsolicited inquiry regarding the purchase of its TV One businesses ("TV One") that were part of the audio, video and control ("AVC") entities and the Company commenced an evaluation of the potential sale of TV One. On July 28, 2015, the Company's Board of Directors approved the plan to sell the stock of TV One to a consortium of TV One's management on July 31, 2015. Under the terms of the agreement, the Company has no ongoing involvement or obligations with respect to TV One and the Company is not obligated to indemnify the purchasers in connection with this transaction. There was no substantial cash consideration received in connection with the transaction. The Company recorded a loss on sale of assets of approximately \$2.9 million in the third quarter of 2015. The Company concluded that the sale of TV One did not meet the criteria to be reported as a discontinued operation under ASC 205-20, "Discontinued Operations", due to the fact that its disposition does not represent a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

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3. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The Company accounts for acquired goodwill in accordance with ASC 805 and ASC 350, which involves judgment with respect to the determination of the valuation of the acquired assets and liabilities assumed in order to determine the final amount of goodwill recorded in a purchase. Under ASC 350, goodwill is not amortized. Instead, it is evaluated for impairment on an annual basis, or more frequently when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value, including, for example, a significant adverse change in the business climate. The Company has set the annual evaluation date as of the first day of its fiscal fourth quarter. The reporting units evaluated for goodwill impairment have been determined to be the same as the Company's operating segments. With the exception of the CAS reporting unit and the AVC entities, all of the Company's reporting units have goodwill and, therefore, are required to be evaluated for goodwill impairment.

Generally, the Company utilizes a combination of a discounted cash flow ("DCF") approach and an EBITDA multiple approach in order to value the Company's reporting units required to be tested for impairment. These non-recurring fair value measurements are primarily determined using unobservable inputs. Accordingly, these fair value measurements are classified within Level 3 of the fair value hierarchy.

The DCF approach requires that the Company forecast future cash flows of the reporting units, and discount those cash flow streams based upon a weighted average cost of capital ("WACC") that is derived, in part, from comparable companies within similar industries. The DCF calculations also include a terminal value calculation that is based upon an expected long-term growth rate for the applicable reporting unit. The Company believes that its procedures for estimating DCF, including the terminal valuation, are reasonable and consistent with market conditions at the time of estimation.

The EBITDA multiple approach requires that the Company estimate certain valuation multiples of EBITDA derived from comparable companies, and apply those derived EBITDA multiples to the applicable reporting unit's estimated EBITDA for selected EBITDA measurement periods.

2015 Interim and Annual Goodwill Impairment Considerations

During the third quarter of 2015, as a result of negative operating result trends, principally driven by the RCH and SCS reporting units, the Company evaluated whether such operating trends indicated that it was more likely than not that the fair value of any of the Company's reporting units were below their carrying amounts. Based on consideration of a number of qualitative and other factors, including the historical excess of fair value over the carrying amount of these reporting units, as well as consideration of the current and forecasted operating results, the Company determined that it was not more likely than not that the fair values of its reporting units were below their carrying amounts. In order to further corroborate this assertion, the Company estimated a preliminary range of fair values of its reporting units using the income approach (discounted cash flow method) and the market approach (EBITDA multiple) with a range of preliminary assumptions. This analysis, including consideration of sensitivity of the key fair value assumptions, resulted in a range of estimated fair values that corroborated the Company's conclusion that it was not more likely than not that the fair value of its reporting units were below their carrying amounts. The Company notes that based on this analysis, the estimated fair values of its AQH, SCS and ERG reporting units exceeded their respective carrying amounts by more than 50%. However, the estimated values of RCH from the analysis described above only exceeded the carrying value by approximately 20% to 30% as of September 26, 2015.

Given the sensitivity analysis performed in the third quarter described above, the Company concluded that the work performed as of September 26, 2015 was sufficient to constitute an appropriate qualitative assessment to conclude that it was not more likely than not that the fair value of the reporting units were below their carrying amounts in support of the Company's annual goodwill impairment test, which was as of the first day of the fourth quarter or September 27, 2015.

During the fourth quarter of 2015, the Company concluded that continued negative operating result trends for certain of its reporting units, as well as the decline in the Company's overall market capitalization, represented indicators of potential goodwill impairment. As a result, the Company completed a quantitative goodwill impairment test as of the end of its fiscal month of November. The Company estimated the fair value of each of the reporting units using a weighted average of 50% for the DCF approach and 50% for the EBITDA approach, which it determined to be a reasonable and predictive methodology for estimating

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long-term fair value of the reporting units. The AQH reporting unit and the North American operations of the RCH reporting unit valuations assumed a taxable transaction while the ERG reporting unit, SCS reporting unit and foreign operations of the RCH reporting unit valuations assumed a non-taxable transaction. The following table summarizes the WACC's utilized in the DCF approach and market multiples utilized in the EBITDA approach for each of the reporting units:

Reporting Unit	WACC	Range of Market Multiples		
		Low-End	-	High-End
AQH	12.4%	7.50	-	8.00
ERG	12.1%	7.50	-	8.00
SCS	14.4%	6.50	-	7.50
RCH	12.2%	8.50	-	9.50

It was determined that the estimated fair values of the Company's reporting units were greater than their carrying value. As a result, no Step 2 test for goodwill impairment was required as of November 21, 2015.

The Company believes that its assumptions used to estimate the fair value of its reporting units were reasonable. As an additional corroborative test of the reasonableness of those assumptions, the Company completed a reconciliation of its market capitalization and overall enterprise value to the fair value of all of its reporting units as of November 21, 2015. If different assumptions were used, particularly with respect to estimating future cash flows, weighted average costs of capital, and terminal growth rates, different estimates of fair value may have resulted. The estimated fair values of the AQH, ERG and SCS reporting units were more than 50% greater than the carrying value of these reporting units. However, the estimated fair value for the RCH reporting unit was only approximately 10% greater than the carrying value of this reporting unit. Therefore, a continued negative trend of operating results or material changes to forecasted operating results of the RCH reporting unit could result in the requirement for additional interim goodwill impairment tests and the potential of a future goodwill impairment charge, which could be material. As of December 31, 2015, the goodwill of the RCH reporting unit was approximately \$106.4 million and is principally related to the April 2014 acquisition of Reznor.

Based on consideration of the above interim goodwill impairment test, including the estimated excess fair value over carrying value of the reporting units, as well as, the Company's review and analysis of any indicators of potential goodwill or other long-lived asset impairment from November 21, 2015 through December 31, 2015, the Company concluded that it was more likely than not that no impairment of goodwill existed as of December 31, 2015.

2014 Interim Goodwill Impairment Testing

During the second quarter of 2014, the Company changed the composition of its reporting units to exclude the AVC subsidiaries from the SCS reporting unit due to the Chief Operating Decision Maker's decision to operate each of the AVC subsidiaries as separate operating segments, resulting in the creation of three new reporting units for goodwill impairment analysis. In addition, due to the continued decline in operating results of the AVC subsidiaries, the Company concluded in the second quarter of 2014 that indicators of potential long-lived assets and goodwill impairment were present. Based on these considerations, the Company performed the following:

- 1. Evaluation of the realizability of long-lived assets** - In accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), the Company evaluates the realizability of long-lived assets, which primarily consists of property and equipment and definite lived intangible assets (the "ASC 360 Long-Lived Assets"), when events or business conditions warrant it, as well as whenever an interim goodwill impairment test is required under ASC 350. ASC 350 requires that the ASC 360 impairment test be completed, and any ASC 360 impairment be recorded, prior to performing the goodwill impairment test. Due to the continued decline in operating results of the AVC subsidiaries, the Company performed an interim test for the impairment of long-lived assets.

The evaluation of the impairment of long-lived assets, other than goodwill, is based on expectations of non-discounted future cash flows compared to the carrying value of the long-lived asset groups. If the sum of the expected non-discounted future cash flows is less than the carrying amount of the ASC 360 Long-Lived Assets, the Company would

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recognize an impairment loss if the carrying amount of the asset group exceeds its fair value. The Company's cash flow estimates are based upon future projected cash flows and, if appropriate, include assumed proceeds upon sale of the asset group at the end of the cash flow period. The Company believes that its procedures for estimating gross future cash flows, including the estimated sales proceeds, are reasonable and consistent with current market conditions for each of the dates when impairment testing has been performed.

Based upon this analysis, the Company recorded a long-lived asset impairment loss of approximately \$76.0 million related to the AVC subsidiaries, comprised of intangible assets of approximately \$74.7 million and property and equipment of approximately \$1.3 million, during the second quarter of 2014. The impairment loss related to intangible assets by class and the applicable weighted average useful lives were as follows:

		Weighted Average Useful Lives
Customer relationships	\$ 48.0	16.2
Trademarks	19.6	12.7
Developed technology	6.1	6.3
Other	1.0	7.9
	<u>\$ 74.7</u>	<u>13.0</u>

The Company believes that impairment losses were reasonable and represented its best estimate of the impairment loss. If market conditions deteriorate further for these entities, it is reasonably possible that the estimate of expected future cash flows may change, resulting in an additional impairment charge relating to property and equipment.

- Evaluation of the legacy Technology Solutions ("TECH") reporting unit for goodwill impairment** - As a result of the impairment indicators described above, the Company estimated the fair value of the legacy TECH reporting unit based upon an EBITDA multiple approach. Based on this estimate, the estimated fair value of the legacy TECH reporting unit exceeded the carrying value of the legacy TECH reporting unit. As a result, the Company did not believe that it was more likely than not that an impairment of the legacy TECH reporting unit goodwill had occurred.
- Allocation of the legacy TECH goodwill to each of the AVC subsidiaries** - The Company estimated the fair value of each of the AVC subsidiaries based upon a DCF approach, as previously described, and allocated a portion of the legacy SCS goodwill to each of the AVC subsidiaries based upon their relative fair value.
- Evaluation of the revised SCS reporting unit and each of the AVC subsidiaries reporting units for goodwill impairment** - During the second quarter of 2014, the Company prepared a "Step 1" Test that compared the estimated fair value of the AVC reporting units to their carrying value utilizing a DCF approach as described previously. As the carrying values of the AVC reporting units exceeded the estimated fair values, the Company performed a "Step 2" Test to measure the impairment loss by allocating the estimated fair values of the reporting units, as determined in Step 1, to the reporting units' assets and liabilities, with the residual amount representing the implied fair value of goodwill. Since the implied fair value of goodwill was determined to be less than the carrying value, an impairment loss of approximately \$4.4 million was recognized during the second quarter of 2014.

2014 Annual Impairment Test

For the 2014 annual impairment test for AQH and SCS, the Company estimated the fair value of each of the reporting units using a weighted average of 50% for the DCF approach and 50% for the EBITDA approach, which it determined to be the most representative allocation for the estimate of the long-term fair value of the reporting units. The AQH valuation assumed a taxable transaction while the SCS valuation assumed a non-taxable transaction, with WACC's of 12.9% and 11.7%, respectively, and EBITDA multiples in the range of 7.0x to 7.5x and 7.5x to 9.0x, respectively, for the selected measurement periods of the latest twelve months through September 27, 2014, and forecasted 2014 and 2015. As the estimated fair values of AQH and SCS were both greater than their carrying value, no Step 2 test for goodwill impairment was required.

The Company believes that its assumptions used to estimate the fair value of AQH and SCS as of the first day of the fourth quarter were reasonable. If different assumptions were used, particularly with respect to estimating future cash flows, weighted

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average costs of capital, and terminal growth rates, different estimates of fair value may have resulted. The estimated fair values of the AQH and SCS reporting units would have to decrease by approximately 48% and 46%, respectively, before a potential impairment would be recognized.

The Company determined that it was appropriate to use the qualitative assessment approach for the 2014 annual goodwill impairment evaluation performed as of the first day of the fourth quarter for ERG and RCH. The estimated fair value of ERG derived in the Company's prior valuation analysis continued to be significantly in excess of the carrying value. The goodwill for RCH as of the first day of the fourth quarter represented the preliminary goodwill recorded in connection with the Company's acquisition of Reznor (see Note 2, "*Acquisitions and Dispositions*"). Based on the qualitative analysis performed, as described above, the Company determined that it was more likely than not that the fair values of ERG and RCH were both greater than their carrying amounts as of the first day of the fourth quarter. Accordingly, the Company was not required to perform the two-step quantitative impairment test for 2014 for ERG and RCH.

The Company did not prepare updated goodwill impairment analyses as of December 31, 2014 for any reporting unit, as there were no indicators during the quarter that would have required such analysis.

2013 Annual Impairment Testing

For the 2013 annual impairment test for AQH, ERG and legacy TECH, the Company estimated the fair value of each of the reporting units using a weighted average of 50% for the DCF approach and 50% for the EBITDA approach, which it determined to be the most representative allocation for the estimate of the long-term fair value of the reporting units. The AQH valuation assumed a taxable transaction while the ERG and the legacy TECH valuations each assumed a non-taxable transaction, with WACC's of 13.2%, 13.4% and 14.5%, respectively, and EBITDA multiples in the range of 7.5x to 8.0x, 6.5x to 7.5x and 7.0x to 8.5x, respectively, for the selected measurement periods of the latest twelve months through September 30, 2013, and forecasted 2013 and 2014. As the estimated fair value of AQH, ERG and legacy TECH was greater than the carrying value, no Step 2 test for goodwill impairment was required. The Company did not prepare updated goodwill impairment analyses as of December 31, 2013 for any reporting unit, as there were no indicators during the quarter that would have required such analysis.

The Company believes that its assumptions used to estimate the fair value of AQH, ERG and legacy TECH as of the first day of the fourth quarter were reasonable. If different assumptions were used, particularly with respect to estimating future cash flows, weighted average costs of capital, and terminal growth rates, different estimates of fair value may have resulted. The estimated fair values of the AQH, ERG, and legacy TECH reporting units would have to decrease by approximately 50.7%, 39.5%, and 23.8%, respectively, before a potential impairment would be recognized.

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Goodwill Activity

The following table presents a summary of the activity in goodwill by reporting segment for the years ended December 31, 2015 and 2014:

	Dec. 31, 2013 ⁽¹⁾	Acquisitions and Impairments ⁽²⁾	Dec. 31, 2014 ⁽¹⁾	Acquisition and Other Adjustments ⁽²⁾	Dec. 31, 2015 ⁽¹⁾
	<i>(Dollar amounts in millions)</i>				
Air Quality and Home Solutions (“AQH”):					
Gross goodwill	\$ 156.8	\$ —	\$ 156.8	\$ —	\$ 156.8
Impairment losses	—	—	—	—	—
Net AQH goodwill	156.8	—	156.8	—	156.8
Security and Control Solutions (“SCS”):					
Gross goodwill	80.9	—	80.9	4.4	85.3
Impairment losses	—	—	—	—	—
Net SCS goodwill	80.9	—	80.9	4.4	85.3
Ergonomic and Productivity Solutions (“ERG”):					
Gross goodwill	131.4	—	131.4	25.6	157.0
Impairment losses	—	—	—	—	—
Net ERG goodwill	131.4	—	131.4	25.6	157.0
Residential and Commercial HVAC (“RCH”):					
Gross goodwill	—	105.2	105.2	1.2	106.4
Impairment losses	—	—	—	—	—
Net RCH goodwill	—	105.2	105.2	1.2	106.4
Audio, Video and Control Solutions (“AVC”):					
Gross goodwill	4.4	—	4.4	—	4.4
Impairment losses	—	(4.4)	(4.4)	—	(4.4)
Net AVC goodwill	4.4	(4.4)	—	—	—
Consolidated goodwill:					
Gross goodwill	373.5	105.2	478.7	31.2	509.9
Impairment losses	—	(4.4)	(4.4)	—	(4.4)
Net consolidated goodwill	\$ 373.5	\$ 100.8	\$ 474.3	\$ 31.2	\$ 505.5

(1) The CAS reporting unit did not have goodwill in any period presented.

(2) Acquisition and other adjustments recorded during 2015 for the SCS, ERG, and RCH segments relate to the acquisition of Numera, Anthro, and Reznor, respectively. Acquisition adjustments recorded during 2014 for the RCH segment relate to the acquisition of Reznor and Phoenix. See Note 2, “Acquisitions and Dispositions”.

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Other Long-Lived Asset Changes in Estimated Useful Lives and Impairment Charges

As a result of the potential indicators of goodwill impairment previously disclosed, the Company completed a review of impairment of other long-lived assets for its asset groups and a review of the estimated remaining useful lives under ASC 360-10, "Impairment and Disposal of Long-Lived Assets" ("ASC 360-10") in both the third and fourth quarter of 2015. Based on these evaluations, the Company did identify, based on the changes in the expected utilization of certain assets, as well as, revised estimated future cash flows, that a reduction of the remaining useful lives of certain intangible assets of assets groups within the AQH, RCH, SCS, and ERG reporting units was required. The impact of this change in estimated useful lives was approximately \$1.9 million of additional amortization expense in 2015 and represents a change in the estimated future annual amortization of approximately \$5.9 million. Except as described below, no impairment was noted in 2015.

As a result of certain restructuring initiatives that the Company commenced in the second quarter of 2015, the Company identified an indicator of impairment related to the long-lived assets of certain of the AVC entities due to declining operating results related to these companies. Based on review of the forecasted undiscounted cash flows over the remaining estimated useful life of the primary asset of the asset group, the Company determined that there was insufficient forecasted net positive cash flows to recover the net book value of property and equipment and such property and equipment had no material salvage value. As a result, the Company recorded an impairment charge of approximately \$1.2 million to reduce the carrying value of the property and equipment to zero. In addition to the 2014 non-cash long-lived asset impairment charges for intangible assets and property and equipment noted previously for the AVC entities, the Company recorded a non-cash long-lived asset impairment charge of approximately \$4.3 million in 2013 related to the write-down of property and equipment in connection with the exit in the first quarter of 2014 of a product line within the AQH segment.

Other Intangible Assets

The table that follows presents the Company's major components of intangible assets as of December 31, 2015 and 2014:

	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets	Weighted Average Remaining Useful Lives
<i>(Amounts in millions, except for useful lives)</i>				
December 31, 2015				
Trademarks	\$ 184.8	\$ (44.7)	\$ 140.1	13.6
Developed technology	109.7	(42.9)	66.8	5.3
Customer relationships	568.8	(167.9)	400.9	10.7
Others	24.2	(22.9)	1.3	1.8
	<u>\$ 887.5</u>	<u>\$ (278.4)</u>	<u>\$ 609.1</u>	10.7
December 31, 2014				
Trademarks	\$ 179.8	\$ (34.4)	\$ 145.4	16.9
Developed technology	88.1	(29.1)	59.0	7.0
Customer relationships	562.1	(128.8)	433.3	12.3
Others	23.5	(18.6)	4.9	1.4
	<u>\$ 853.5</u>	<u>\$ (210.9)</u>	<u>\$ 642.6</u>	12.8

During the year ended December 31, 2015, the Company acquired a perpetual license to develop technology utilized in certain of the Company's SCS segment's products. The fair value of the acquired developed technology was approximately \$2.8 million and is being amortized over its estimated useful life of six years. Developed technology, trademarks and customer relationships are amortized on a straight-line basis. Amortization of intangible assets charged to operations amounted to approximately \$67.3 million, \$60.0 million, and \$51.3 million for the three years ended December 31, 2015, respectively.

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As of December 31, 2015, the estimated future intangible asset amortization expense is as follows:

Year Ended December 31,	Annual Amortization Expense
	<i>(Dollar amounts in millions)</i>
2016	\$ 69.3
2017	68.9
2018	66.3
2019	59.5
2020	53.8
2021 and thereafter	291.3

4. NOTES, MORTGAGE NOTES AND OBLIGATIONS PAYABLE

Short-term bank obligations

Short-term bank obligations at December 31, 2015 and 2014 consist of the following:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Secured lines of credit and bank advances of the Company's foreign subsidiaries	\$ 0.5	\$ 0.6

Short-term bank obligations of the Company's foreign subsidiaries are secured by accounts receivable of the Company's foreign subsidiaries with an aggregate net book value of approximately \$0.5 million, and have a weighted average interest rate of approximately 7.7% at December 31, 2015.

Notes, Mortgage Notes and Obligations Payable

Notes, mortgage notes and obligations payable consist of the following at December 31, 2015 and 2014:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
8.5% Senior Notes due 2021, net of premium of approximately \$3.4 million and \$4.8 million at December 31, 2015 and 2014, respectively	\$ 738.4	\$ 739.8
10% Senior Notes due 2018	—	250.0
Senior secured term loan facility due 2020, net of discount of approximately \$4.9 million and \$1.6 million at December 31, 2015 and 2014, respectively	603.5	346.6
ABL Facility	44.0	—
Mortgage notes payable, net of discount of approximately \$0.1 million at December 31, 2014	—	1.3
Other, net of discount of approximately \$0.2 million at December 31, 2014	6.1	8.0
	1,392.0	1,345.7
Less amounts included in current liabilities	6.9	6.3
	\$ 1,385.1	\$ 1,339.4

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Second Quarter 2015 Debt Transactions

On April 2, 2015, the Company obtained an incremental \$265.0 million senior secured term loan pursuant to an amendment (the "Incremental Amendment") to the Company's existing \$350.0 million senior secured term loan facility due 2020 (the "Term Loan Facility") dated as of April 30, 2014, with substantially the same terms as the Term Loan Facility (the "Incremental Term Loan"), combined the "Term Loan Facilities". Additionally on April 2, 2015, the Company provided a notice of redemption for all of its outstanding 10% Senior Notes due 2018 (the "10% Notes"). These notes were redeemed on May 4, 2015 at a redemption price of 105% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date.

The Company incurred fees and expenses of approximately \$2.7 million, of which approximately \$2.5 million has been included in deferred financing costs and are being recognized in accordance with the effective interest rate method. The redemption of the 10% Notes resulted in a pre-tax loss of approximately \$14.8 million during the second quarter of 2015.

Second Quarter 2014 Debt Transactions

In connection with the acquisition of Reznor, on April 30, 2014, the Company entered into the Term Loan Facility. The net proceeds from the Term Loan Facility were used to acquire Reznor and to repay all of the outstanding secured debt under the Company's previously existing senior secured term loan due 2017, which had an aggregate principal amount outstanding of approximately \$93.0 million upon repayment. The Company incurred fees and expenses of approximately \$6.3 million, of which approximately \$4.6 million has been included in deferred financing costs and are being recognized in accordance with the effective interest rate method. The redemption of the previously existing senior secured term loan facility resulted in a pre-tax loss of approximately \$2.3 million in 2014.

8.5% Senior Notes due 2021

The 8.5% Senior Notes due 2021 (the "8.5% Notes") are unconditionally guaranteed on a senior unsecured basis by each of the Company's current and future domestic restricted subsidiaries (other than receivables subsidiaries, immaterial subsidiaries or non-wholly owned subsidiaries unless such non-wholly owned subsidiary guarantees any credit facilities or any capital market securities of the Company or any guarantor) that guarantee any of the Company's or other restricted subsidiaries' other indebtedness. Interest on the 8.5% Notes accrues at the rate of 8.5% per annum and is payable semi-annually in arrears on April 15 and October 15, until maturity. Interest on the 8.5% Notes accrues from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

On or after April 15, 2016, the 8.5% Notes are redeemable at the option of the Company, in whole or in part, on or after April 15, 2016 at 104.25%, declining to 102.125% on April 15, 2017, declining to 101.063% on April 15, 2018 and further declining to 100.0% on April 15, 2019.

In addition, at any time and from time to time prior to April 15, 2016, the Company may redeem all or any portion of the 8.5% Notes outstanding at a redemption price equal to (a) 100% of the aggregate principal amount of the 8.5% Notes to be redeemed together with accrued and unpaid interest to such redemption date, plus (b) the "Make Whole Amount". The "Make Whole Amount" means, with respect to the 8.5% Notes at any redemption date, the greater of (i) 1.0% of the principal amount of the 8.5% Notes and (ii) the excess, if any, of (a) an amount equal to the present value of (1) the redemption price of the 8.5% Notes at April 15, 2016 plus (2) the remaining scheduled interest payments of the 8.5% Notes to be redeemed to April 15, 2016, computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of the 8.5% Notes to be redeemed.

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Term Loan and ABL Facilities

The Term Loan Facilities are repayable in quarterly installments of \$1,537,500 with a balloon payment for the remaining balance due on October 30, 2020. Loans under the Term Loan Facilities bear interest, at the Company's option, at a rate per annum equal to either (1) a Base Rate (as defined in the credit agreements governing the Term Loan Facilities) or (2) a Eurodollar Rate (as defined in the credit agreements governing the Term Loan Facilities), in each case plus an applicable margin. The interest rate related to both the Term Loan Facilities was approximately 3.50% at December 31, 2015.

The Term Loan Facility provides that the Company may request additional tranches of term loans in an aggregate amount not to exceed \$275.0 million, plus additional amounts subject to the secured leverage ratio of 3.5 to 1.0 after giving effect to the Incremental Term Loan. The Incremental Amendment was executed in reliance on the secured ratio condition. Availability of such additional tranches of term loans will be subject to the absence of any default, a pro forma secured leverage ratio test (in certain cases) and, among other things, the receipt of commitments by existing or additional financial institutions.

The credit agreement governing the Company's Term Loan Facility requires the Company to prepay outstanding term loans, subject to certain exceptions, with:

- 50% (subject to reduction to 25% and 0% based upon the Company's secured leverage ratio) of the Company's annual excess cash flow, commencing with the fiscal year ended December 31, 2015;
- 100% of the net cash proceeds of certain asset sales and casualty and condemnation events, subject to reinvestment rights and certain other exceptions; and
- 100% of the net cash proceeds of any issuance of debt, other than debt permitted under the Term Loan Facility.

At December 31, 2015, there were no requirements to prepay outstanding amounts under the Term Loan Facility. The Company may voluntarily prepay outstanding loans at any time without premium or penalty other than customary "breakage" costs with respect to Eurodollar Rate loans.

The ABL Facility consists of a \$280.0 million U.S. facility (with a \$60.0 million sublimit for the issuance of U.S. standby letters of credit and a \$20.0 million sublimit for U.S. swingline loans) and a \$20.0 million Canadian facility.

There are limitations on the Company's ability to incur the full \$300.0 million of commitments under the ABL Facility. Availability is limited to the lesser of the borrowing base under the ABL Facility and \$300.0 million. The borrowing base at any time will equal the sum (subject to certain reserves and other adjustments) of:

- 85% of the net amount of eligible accounts receivable;
- 85% of the net orderly liquidation value of eligible inventory; and
- available cash subject to certain limitations as specified in the ABL Facility.

As of December 31, 2015, the Company had approximately \$44.0 million in outstanding borrowings and approximately \$11.5 million in outstanding letters of credit under the ABL Facility. Based on the December 2015 borrowing base calculations, the Company had excess availability of approximately \$244.5 million at December 31, 2015.

The interest rates applicable to loans under the ABL Facility are, at the Company's option, equal to either an adjusted LIBOR rate for a one, two, three or six month interest period (or such period of 365 days or less, if consented to by the relevant lenders) or an alternate base rate, plus an applicable margin percentage ranging from 1.75% to 2.25% for borrowings based on an adjusted LIBOR or Canadian bankers' acceptance rate, and 0.75% to 1.25% for borrowings based on a base or prime rate, depending on the Company's Average Excess Availability (as defined in the ABL Facility). The alternate base rate, with respect to U.S. Borrowings, will be the greater of (1) the Federal Funds rate plus 0.50%, (2) 1.00% plus the LIBOR rate for a 30 day interest period as determined on such day, or (3) the prime rate. Interest is payable at the end of the selected interest period, but no less frequently than quarterly.

On June 3, 2015, the Company amended its ABL Facility to reflect a change in the circumstances in which amounts deposited by the Company in collection accounts maintained by the administrative agent will be used to repay outstanding loans and cash collateralized letters of credit (a "Cash Dominion Event"). Under the terms of the amendment, a Cash Dominion Event exists if (i) excess availability (as defined in the ABL Facility) falls below the greater of \$30.0 million or 10.0% of the total amount

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of the U.S. and Canadian credit facilities (rather than 12.5% of the borrowing base) or (ii) an event of default has occurred and is continuing. The Company did not incur any fees or expenses in conjunction with amending the ABL Facility. Based on the December 2015 borrowing base calculations, the Company had approximately \$214.5 million of excess availability before triggering the cash deposit requirements at December 31, 2015. In addition, under the ABL Facility, if (i) excess availability falls below the greater of \$30.0 million or 12.5% of the U.S. and Canadian credit facilities or (ii) an event of default has occurred and is continuing, the Company will be required to satisfy and maintain a consolidated fixed charge coverage ratio measured on a trailing four quarter basis of not less than 1.0 to 1.0. The ABL Facility and the Term Loan Facility also restrict the Company's ability to prepay its other indebtedness, including the 8.5% Notes and, with respect to the ABL Facility, the Term Loan Facility, or designate any other indebtedness as senior debt.

Additional borrowings under the ABL Facility require the Company and its subsidiaries to make certain customary representations and warranties as of the date of such additional borrowing. In the event that the Company and its subsidiaries are unable to make such representations and warranties on such borrowing date, then the lenders under the ABL Facility may not honor such request for additional borrowing. The ABL Facility also provides the lenders considerable discretion to impose reserves or availability blocks, which could materially impair the amount of borrowings that would otherwise be available to the Company and its subsidiaries and may require the Company to repay certain amounts outstanding under the ABL Facility. There can be no assurance that the lenders under the ABL Facility will not impose such actions during the term of the ABL Facility.

All obligations under the Company's Term Loan Facility and ABL Facility are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned domestic (and, in the case of the ABL Facility, Canadian) restricted subsidiaries of the Company. All obligations under the Company's Term Loan Facility and ABL Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the Company's assets and the assets of the guarantors, including:

- a second-priority security interest in the case of the Term Loan Facility, and a first-priority security interest in the case of the ABL Facility, in personal property consisting of accounts receivable, inventory, cash, deposit accounts, and certain related assets and proceeds of the foregoing; and
- a first-priority security interest in the case of the Term Loan Facility, and a second-priority interest in the case of the ABL Facility, in, and mortgages on, substantially all of the Company's material owned real property and equipment and in the case of the Term Loan Facility, a pledge of the capital stock of any direct subsidiaries held by guarantor (limited for certain foreign subsidiaries to 65% of the voting capital of first-tier foreign subsidiaries).

Debt Covenant Compliance

The indentures and other agreements governing the Company's indebtedness and the indebtedness of its subsidiaries contain certain restrictive financial and operating covenants, including covenants that restrict, among other things, the Company's ability and the ability of its subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets, and take certain other corporate actions (all as defined in the indentures and other agreements). As of December 31, 2015, the Company had the capacity to make certain payments, including dividends, of approximately \$102.9 million.

As of December 31, 2015, the Company was in compliance with all covenants under the indenture that governs the 8.5% Notes and the credit agreements that govern the ABL Facility and the Term Loan Facility and believes it is reasonably assured it will comply with the covenants for the foreseeable future.

Other Indebtedness

Other obligations, including capital leases, of approximately \$6.1 million outstanding at December 31, 2015 include borrowings relating to equipment purchases, notes payable issued for acquisitions and other borrowings bearing interest at rates ranging from approximately 0.5% to 12.2% and maturing at various dates through 2027. Approximately \$2.1 million of such indebtedness is collateralized by property and equipment with an aggregate net book value of approximately \$4.9 million at December 31, 2015.

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Scheduled Maturities

At December 31, 2015, the maturities for the Company's notes, mortgage notes and obligations payable (excluding approximately \$3.4 million of unamortized debt premium and approximately \$4.9 million of unamortized debt discount) were:

<u>Year Ended December 31,</u>	Debt Obligation Maturities	
	<i>(Dollar amounts in millions)</i>	
2016	\$	7.0
2017		51.1
2018		6.8
2019		6.3
2020		586.2
Thereafter		736.1

5. EXIT AND DISPOSAL ACTIVITIES

The Company has initiated various exit and disposal activities including, but not limited to, the matters described below. Employee separation expenses are comprised of severance, outplacement and retention bonus payments. Other costs include expenses associated with asset write-downs, terminating contractual arrangements, costs to prepare facilities for closure, and costs to move equipment and products to other facilities.

Manufacturing Rationalization and Relocation Initiatives

The Company's Board of Directors approved several initiatives relating to the transfer of product manufacturing and the consolidation of certain manufacturing facilities within the RCH and CAS segments (collectively, the "Manufacturing Rationalization & Relocation Initiatives").

Cash expenditures began in the second quarter of 2013 and have been substantially completed as of the end of 2015. In connection with the Manufacturing Rationalization & Relocation Initiatives, the Company has incurred cumulative costs of approximately \$18.0 million (of which approximately \$16.4 million and \$1.6 million were recorded in the RCH and CAS segments, respectively).

The following table sets forth the changes to the liability for the Manufacturing Rationalization & Relocation Initiatives during the year ended December 31, 2015:

	<u>Severance</u>		<u>Other Costs</u>		<u>Total</u>	
	<i>(Dollar amounts in millions)</i>					
Balance, December 31, 2014	\$	5.2	\$	—	\$	5.2
Provision ⁽¹⁾		(0.1)		2.8		2.7
Payments		(5.1)		(2.8)		(7.9)
Other		—		—		—
Balance, December 31, 2015	<u>\$</u>	<u>—</u>	<u>\$</u>	<u>—</u>	<u>\$</u>	<u>—</u>

(1) During 2015, approximately \$2.3 million and \$0.4 million were recorded in the RCH and CAS segments, respectively.

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Warehousing and Distribution Consolidation

In connection with the Company's efforts to optimize supply chain performance, the Company's Board of Directors approved entry into a five-year agreement with a third party logistics service provider to outsource certain warehousing and distribution activities in the Company's North American operating segments and facilitate the consolidation of North American warehousing distribution centers (the "Warehousing & Distribution Consolidation"). See below for a discussion of the current status of this agreement.

Cumulative costs incurred in connection with the Warehousing & Distribution Consolidation include severance and other costs of approximately \$2.7 million, of which approximately \$1.7 million, \$0.6 million, and \$0.4 million were recorded in the SCS, ERG, and combined AVC segments, respectively.

The following table sets forth the changes to the liability for the Warehousing and Distribution Consolidation during the year ended December 31, 2015:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2014	\$ —	\$ 0.5	\$ 0.5
Provision ⁽¹⁾	—	(0.3)	(0.3)
Payments	—	(0.2)	(0.2)
Balance, December 31, 2015	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) All activity during 2015 was recorded in the SCS segment.

In October 2015, it was determined that the Company would assume control of certain U.S. dedicated distribution centers that had been operated by a third party logistics service provider since 2013. Refer to Note 2, "Acquisitions and Dispositions - Assumption of Distribution Centers", for further detail surrounding this transaction.

Subsidiary Combinations

The Company has combined, or is in the process of combining, the operations of certain subsidiaries in order to improve overall operational efficiencies, reduce costs, and provide potential for greater revenue growth ("Subsidiary Combinations").

On July 28, 2015, the Company's Board of Directors approved a restructuring plan designed to merge the operations of Gefen into Core Brands, including the exit from certain product lines, which commenced during the third quarter of 2015 (the "additional subsidiary combination"). During 2015, the Company recorded approximately \$6.1 million of inventory charges, including expected purchase order cancellations of approximately \$1.1 million, and approximately \$1.5 million of severance and other charges associated with this additional subsidiary combination.

The Company currently expects the estimated total costs related to one time termination benefits and other costs associated with Subsidiary Combinations, including the restructuring of Gefen into Core Brands, to be approximately \$25.9 million to \$26.9 million. Total expected costs by segment are as follows:

	<u>Low</u>	<u>High</u>
	<i>(Dollar amounts in millions)</i>	
SCS	\$ 0.9	\$ 0.9
RCH	1.3	1.3
AVC	23.7	24.7
	<u>\$ 25.9</u>	<u>\$ 26.9</u>

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In connection with Subsidiary Combinations, including the additional subsidiary combination, the Company has incurred cumulative costs of approximately \$25.5 million, of which approximately \$0.9 million, \$1.3 million and \$23.3 million was recorded in the SCS, RCH, and combined AVC segments, respectively. These costs consist of one time termination benefits of approximately \$6.2 million, approximately \$9.6 million in costs to reduce inventory values for certain products to their expected net realizable amount, and facility exit and other costs of approximately \$9.7 million.

The following table sets forth the changes to the liability for Subsidiary Combinations during the year ended December 31, 2015:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2014	\$ 0.7	\$ 1.0	\$ 1.7
Provision ⁽¹⁾⁽²⁾	1.2	1.6	2.8
Payments	(0.8)	(1.3)	(2.1)
Other	(0.1)	(0.1)	(0.2)
Balance, December 31, 2015	<u>\$ 1.0</u>	<u>\$ 1.2</u>	<u>\$ 2.2</u>

- (1) All costs during 2015 were recorded in the AVC segments.
- (2) Excludes approximately \$5.0 million of inventory charges recorded during the second half of 2015 described above.

In the event the Company elects to further consolidate subsidiaries, the Company may incur additional costs related to severance and other costs.

Best Restructuring

In 2011, management approved a plan to reduce costs and improve production efficiencies at Best, one of the Company's AQH subsidiaries, including transferring certain operations from Italy to Poland (the "Best Restructuring"). In the third quarter of 2015, management approved further restructuring costs for this business (the "additional restructuring actions"). Approximately \$1.6 million of severance costs was recorded in the second half of 2015 in connection with the additional restructuring actions. In connection with the Best Restructuring, including the additional restructuring actions, the Company has incurred cumulative costs of approximately \$19.6 million, consisting of contractual termination benefits of approximately \$19.2 million and other costs of approximately \$0.4 million. As the Company continues to evaluate Best, it is possible that the Company will take future restructuring actions and additional expenses may be incurred.

The following table sets forth the changes to the liability for the Best Restructuring during the year ended December 31, 2015:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2014	\$ 0.4	\$ —	\$ 0.4
Provision	2.0	—	2.0
Payments	(1.0)	—	(1.0)
Other	(0.1)	—	(0.1)
Balance, December 31, 2015	<u>\$ 1.3</u>	<u>\$ —</u>	<u>\$ 1.3</u>

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CAS Segment Consolidation

On May 4, 2015, the Company's Board of Directors approved a restructuring plan designed to consolidate production activities in its North American and European operations in the CAS segment, and exit from certain product lines which were determined to have limited strategic importance or to be competitively disadvantaged. The plan anticipated that the production facilities at two North American locations would be discontinued, with the product lines from those facilities transferred to other North American locations, or discontinued. Furthermore, the CAS segment's manufacturing operations in Mexico were ceased and the operation of the manufacturing facility was transferred to the Company's RCH segment to be used in that segment's production activities. The CAS Segment Consolidation is substantially complete and approximately \$8.3 million was recorded in 2015 comprised principally of employee separation, facility abandonment, and inventory write-offs during the consolidation period.

The following table sets forth the changes to the liability for the CAS Segment Consolidation during the year ended December 31, 2015:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2014	\$ —	\$ —	\$ —
Provision ⁽¹⁾	2.8	1.5	4.3
Payments	(2.4)	(1.5)	(3.9)
Other	—	—	—
Balance, December 31, 2015	<u>\$ 0.4</u>	<u>\$ —</u>	<u>\$ 0.4</u>

(1) Excludes approximately \$4.0 million of inventory charges recorded during 2015.

Other Restructuring Activities

As noted previously, the Company has transferred the management of its UK commercial HVAC subsidiary from the CAS segment to the RCH segment. As part of this transfer, the Company's Board of Directors approved a restructuring plan related to the UK commercial HVAC subsidiary including a reduction of headcount, the closure of one facility, and the transfer of certain operations to other facilities within the RCH segment. Costs to be incurred in connection with this plan are expected to be in the range of approximately \$5.0 million to \$6.0 million, comprised principally of employee separation and lease obligations. The Company has recorded severance and other costs in 2015 of approximately \$4.3 million, consisting of severance of approximately \$2.2 million and other costs, including inventory write-offs, of approximately \$2.1 million related to these activities.

During 2015, the Company also recorded inventory write-offs of approximately \$0.9 million related to the discontinuation of a certain legacy product line at an AVC entity.

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The following table sets forth the changes to the liability for other restructuring activities during the year ended December 31, 2015:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2014	\$ —	\$ —	\$ —
Provision ⁽¹⁾⁽²⁾	2.2	1.9	4.1
Payments	(1.8)	(0.9)	(2.7)
Balance, December 31, 2015	<u>\$ 0.4</u>	<u>\$ 1.0</u>	<u>\$ 1.4</u>

- (1) All costs during 2015 were recorded in the RCH segment.
(2) Excludes approximately \$0.2 million and \$0.9 million of inventory charges recorded in the RCH and AVC segments, respectively.

Summary of Exit and Disposal Activities

The following table outlines amounts recorded within the consolidated statement of operations associated with the Company's exit and disposal activities for the three years ended December 31, 2015:

	For the year ended December 31,								
	2015			2014			2013		
	SG&A	COGS	Total	SG&A	COGS	Total	SG&A	COGS	Total
<i>(Dollar amounts in millions)</i>									
Manufacturing Rationalization & Relocation Initiatives	\$ 0.1	\$ 2.6	\$ 2.7	\$ —	\$ 7.0	\$ 7.0	\$ —	\$ 8.3	\$ 8.3
Warehousing & Distribution Consolidation	—	(0.3)	(0.3)	0.3	0.9	1.2	0.1	1.7	1.8
Subsidiary Combinations	1.4	6.4	7.8	3.1	1.3	4.4	5.3	1.9	7.2
CAS Segment Consolidation	0.7	7.6	8.3	—	—	—	—	—	—
Best Restructuring	0.4	1.6	2.0	0.3	—	0.3	—	(0.2)	(0.2)
Other restructuring activities	1.2	4.0	5.2	—	—	—	—	—	—
Total	<u>\$ 3.8</u>	<u>\$ 21.9</u>	<u>\$ 25.7</u>	<u>\$ 3.7</u>	<u>\$ 9.2</u>	<u>\$ 12.9</u>	<u>\$ 5.4</u>	<u>\$ 11.7</u>	<u>\$ 17.1</u>

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6. COMMITMENTS AND CONTINGENCIES

Lease Obligations

At December 31, 2015, the Company is obligated under operating lease agreements for the rental of certain real estate and machinery and equipment used in its operations. At December 31, 2015, future minimum rental obligations aggregated approximately \$100.9 million and are payable as follows:

Year Ended December 31,	Future Minimum Rental Obligations	
	<i>(Dollar amounts in millions)</i>	
2016	\$	25.1
2017		23.3
2018		18.7
2019		12.2
2020		8.6
Thereafter		13.0

Certain of these lease agreements provide for increased payments based on changes in the consumer price index. Under certain of these lease agreements, the Company or its subsidiaries are also obligated to pay insurance and taxes. Certain of the Company's operating lease arrangements for the rental of real estate contain renewal options. The Company has reviewed the provisions of the renewal options and determined that none of the renewal options represent bargain renewal options. In addition, certain of the Company's operating lease arrangements for the rental of real estate contain certain restrictions, including restrictions on use and sublease of the leased properties. The Company has evaluated the restrictions and determined that none of the restrictions limit its ability to utilize the property for its intended purpose. At December 31, 2015, the Company is obligated under operating lease agreements for the rental of certain real estate with lease terms ranging from approximately 1 year to 11 years and machinery and equipment used in its operations with lease terms ranging from approximately 2 years to 6 years.

Rental expense charged to continuing operations in the accompanying consolidated statements of operations was approximately \$32.4 million, \$29.9 million and \$32.7 million for 2015, 2014 and 2013, respectively.

Indemnifications

The Company has indemnified third parties for certain matters in a number of transactions involving dispositions of former subsidiaries, including certain pension and environmental liabilities. The Company has recorded liabilities in relation to these indemnifications in the accompanying consolidated balance sheet as follows:

	For the year ended December 31,			
	2015		2014	
	<i>(Dollar amounts in millions)</i>			
Accrued expenses	\$	2.5	\$	2.5
Other long-term liabilities		1.1		2.4
	\$	3.6	\$	4.9
Undiscounted future payments	\$	3.7	\$	5.1

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Product Warranty and Recall Reserves

The Company sells a number of products and offers a number of warranties including, in some instances, extended warranties for which the Company receives proceeds. The specific terms and conditions of these warranties vary depending on the product sold and the 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. Warranty costs are included in cost of revenues. Deferred revenue from extended warranties is recorded at estimated fair value and is amortized over the life of the warranty and periodically reviewed to ensure that the amount recorded is equal to or greater than 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 introductions. 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 2015 and 2014 are as follows:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Balance, beginning of period	\$ 54.8	\$ 56.8
Warranties provided during period	24.7	26.6
Settlements made during period	(27.4)	(31.5)
Changes in liability estimate, including expirations and acquisitions	(1.1)	2.9
Balance, end of period	<u>\$ 51.0</u>	<u>\$ 54.8</u>

The Company has undertaken several voluntary product recalls and reworks over the past several years and could do so in the future given the nature of the Company's business. Additional product recalls and reworks could result in material future costs. Many of the Company's products, especially certain models of bath fans, range hoods, and residential furnaces and air conditioners, have a large installed base, and any recalls or reworks related to such products could be particularly costly. The costs of product recalls or reworks are not generally covered by insurance. Recalls or reworks may adversely affect the Company's reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on its financial condition, results of operations and cash flows.

Purchase Obligations

The Company has certain non-cancelable purchase obligations, which principally relate to the purchase of raw materials and components that are utilized in the Company's products, as well as certain commitments for capital expenditures. These purchase obligations are generally less than one year and as of December 31, 2015 totaled approximately \$48.8 million. There were no material purchase obligations in excess of quantities expected to be utilized in normal operations.

Product Liability Contingencies

In an action initiated on May 21, 2014, Nortek Global HVAC LLC ("Nortek Global HVAC"), our wholly owned subsidiary, was named as a defendant in a putative class action lawsuit in Florida, Harris, et al. v. Nortek Global HVAC, LLC, Case No. 1:14-cv-21884-BB, filed in the United States District Court for the Southern District of Florida. In addition, in an action initiated on October 3, 2014, Nortek, Inc., Nortek Global HVAC LLC and Nortek Global HVAC Latin America, Inc. were named as defendants in a putative class action lawsuit in Tennessee, Bauer, et al. v. Nortek Global HVAC, LLC, et al., Case No. 3:14-cv-01940, filed in the United States District Court for the Middle District of Tennessee. These lawsuits allege that the copper evaporator and condenser coils in Nortek Global HVAC's residential heating and cooling products are susceptible to a type of potential corrosion that can result in coil leaks and eventual failure of the units. The Florida action sought compensatory damages associated with Nortek Global HVAC's alleged wrongdoing, injunctive relief, and attorneys' fees and costs. The Tennessee action seeks damages associated with repairing, retrofitting and/or replacing the allegedly defective products, the loss of value due to the alleged defect, property damages associated with the alleged defect, injunctive relief, punitive damages, and attorneys' fees and costs. On January 29, 2016, the Court in the Florida action entered an order denying the plaintiffs' motion to certify a class of Florida consumers. Subsequently, the Company reached a nominal settlement with the two named plaintiffs in the Florida action. In

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the Tennessee action, no arguments or ruling with respect to class action status have occurred to date. The Company believes it has meritorious defenses against the claims in the Tennessee action. At this time, the Company believes that the likelihood of a material loss in the Tennessee action is remote and has not recognized a loss or liability in such action; however, it is possible that events could occur that would change the likelihood of a material loss, which could ultimately have a material impact on our business. The Company will continue to assess the likelihood of a material loss as the Tennessee action progresses.

FCPA Matters

As previously reported, as part of the Company's routine internal audit activities, it discovered certain questionable hospitality, gift and payment practices, and other expenses at the Company's subsidiary, Linear Electronics (Shenzhen) Co. Ltd. ("Linear China"), which are inconsistent with the Company's policies and raise concerns under the U.S. Foreign Corrupt Practices Act and perhaps under other applicable anti-corruption laws. The Company conducted an internal investigation into these practices and payments with the assistance of outside counsel.

On January 7, 2015 and January 8, 2015, respectively, the Company voluntarily contacted the SEC and the United States Department of Justice ("DOJ") to advise both agencies of the Company's internal investigation. The Company is in discussions with both agencies and continues to cooperate with the SEC and DOJ investigations into these matters. The Company takes these matters very seriously and is committed to conducting its business in compliance with all applicable laws.

Based on information known at this time, the Company currently believes that the amount of the questionable expenses and payments is not material with respect to the Company's consolidated financial condition or results of operations for the periods presented. However, at this time, the Company is unable to predict what, if any, action may be taken by the DOJ or SEC or any penalties or remedial measures these agencies may seek, but intends to cooperate with both agencies. Any determination that the Company's operations or activities are not in compliance with existing laws or regulations could result in the imposition of fines, civil and criminal penalties, and equitable remedies, including disgorgement or injunctive relief. The Company cannot reasonably estimate the potential liability, if any, related to these matters resulting from any proceedings that may be commenced by the SEC, the DOJ or any other governmental authorities. For the year ended December 31, 2015 and 2014, approximately \$2.3 million and \$0.8 million, respectively, was recorded for legal and other professional services incurred related to the internal investigation of this matter. The Company expects to incur additional costs relating to the investigation of this matter in 2016.

Other Commitments and Contingencies

During 2014, the Company completed construction and placed into service approximately \$24.5 million and \$7.0 million of buildings related to facilities in Mexico for the RCH and CAS segments, respectively. In connection with certain restructuring initiatives within the CAS segment during 2015 as described previously (see Note 5, *Exit and Disposal Activities*), the CAS segment transferred its Mexico facility to the RCH segment in 2015. In accordance with the provisions of ASC 840, *Leases*, the Company was considered to be the owner of the asset during the construction period and the Company determined that the facilities did not qualify for de-recognition upon completion. These buildings are being depreciated over a 20 year estimated remaining useful life. The corresponding present values of the liabilities for the minimum monthly payments for these facilities are included in accrued liabilities for the current portion and other long-term liabilities for the long-term portion and are being amortized over 20 years using interest rates of approximately 7.5% and 6.4% for the respective obligations. Annual minimum payments under these agreements are approximately \$2.4 million and \$0.6 million for the respective obligations.

In 2014, one of the Company's subsidiaries within its ERG segment entered into a lease agreement for a building of approximately 84,000 square feet located in China, to be used as a warehouse facility. The Company is responsible for a significant portion of the construction costs and was deemed, for accounting purposes, to be the owner of the building during the construction period, in accordance with ASC 840, *Leases*, Subsection 40-15-5. Construction of the facility commenced in the fourth quarter of 2015 and the Company recorded approximately \$0.2 million within buildings and improvements and a corresponding long-term liability within its consolidated balance sheet. Construction is expected to be completed by the end of 2016.

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, workers' compensation claims, product liability, warranty, and modification and adjustment or replacement of component parts of units sold, which include product recalls. 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

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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. Furthermore, due to the lack of adequate information and the potential impact of present regulations and any future regulations, there are certain circumstances in which the amount or range of possible losses cannot be reasonably estimated.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, warranty, product liability, environmental liabilities, and product recalls, 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 Company's consolidated financial position, results of operations or liquidity. It is possible, however, that results of operations for any particular future period could be materially affected by changes in the Company's assumptions or strategies related to these contingencies or changes that are not within the Company's control.

7. ACCRUED EXPENSES AND TAXES AND OTHER LONG-TERM LIABILITIES

Accrued expenses and taxes included in current liabilities in the accompanying consolidated balance sheet consist of the following at December 31, 2015 and 2014:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Payroll, pension and employee benefits	\$ 64.4	\$ 65.0
Product liability reserves	7.2	8.7
Other insurance reserves, including employee health benefit accruals	8.3	7.6
Interest	17.1	15.7
Exit and disposal activities	4.9	7.8
Product warranty	23.1	26.6
Sales and marketing expenditures	33.9	34.0
Other, net	55.6	57.0
	<u>\$ 214.5</u>	<u>\$ 222.4</u>

Accrued expenses included in other long-term liabilities in the accompanying consolidated balance sheet, consist of the following at December 31, 2015 and 2014:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Employee pension retirement benefit obligation	\$ 44.4	\$ 53.3
Product warranty	27.9	28.2
Post-retirement health benefit obligations	1.3	1.4
Product liability reserves	36.7	32.5
Other insurance reserves	3.1	3.4
Exit and disposal activities	0.4	—
Mexico facility	29.5	30.3
Uncertain tax positions	23.1	22.4
Other, net	12.1	14.4
	<u>\$ 178.5</u>	<u>\$ 185.9</u>

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8. INCOME TAXES

The following is a summary of the components of (loss) earnings before (benefit) provision for income taxes for the periods presented:

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions)</i>		
Domestic	\$ (55.4)	\$ (78.8)	\$ (31.8)
Foreign	25.3	13.8	20.4
	<u>\$ (30.1)</u>	<u>\$ (65.0)</u>	<u>\$ (11.4)</u>

The following is a summary of the benefit from income taxes included in the accompanying consolidated statements of operations for the periods presented:

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions)</i>		
Current:			
Federal	\$ 0.7	\$ 4.7	\$ 0.3
State	2.3	0.3	(2.1)
Foreign	14.9	13.7	6.4
Total current provision for income taxes	<u>17.9</u>	<u>18.7</u>	<u>4.6</u>
Deferred:			
Federal	(16.6)	(31.5)	(3.5)
State	(3.4)	(3.3)	(4.2)
Foreign	(1.3)	(3.3)	—
Total deferred benefit from income taxes	<u>(21.3)</u>	<u>(38.1)</u>	<u>(7.7)</u>
Benefit from income taxes	<u>\$ (3.4)</u>	<u>\$ (19.4)</u>	<u>\$ (3.1)</u>

The Company has recorded approximately \$0.4 million and \$3.2 million of realized tax benefits related to deductions for share-based compensation in excess of the corresponding book expense to additional paid in capital for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, the Company has approximately \$5.1 million of remaining excess tax benefits that will be recognized as a credit to additional paid in capital when the benefits are realized on a tax return. The Company accounts for share-based compensation deductions on the basis that these are the last tax benefits that are utilized. The Company also recorded a provision to other comprehensive income of approximately \$1.2 million, a benefit of approximately \$4.6 million, and a provision of approximately \$6.0 million for the years ended December 31, 2015, 2014, and 2013, respectively, related to deferred income taxes on pension liability (Note 13, "Pension, Profit Sharing and Other Post-Retirement Benefits").

Income tax payments, net of refunds, for 2015, 2014 and 2013 were approximately \$14.0 million, \$14.4 million and \$12.2 million, respectively.

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The following table reconciles the federal statutory income tax benefit and rate to the actual income tax benefit and related effective tax rate for the periods presented:

	For the year ended December 31,					
	2015		2014		2013	
	\$	%	\$	%	\$	%
	<i>(Dollar amounts in millions)</i>					
Income tax at the federal statutory rate	\$ (10.5)	35.0%	\$ (22.7)	35.0%	\$ (4.0)	35.0%
Net change from federal statutory rate:						
Change in valuation allowance related to deferred tax assets	3.7	(12.3)	6.1	(9.4)	5.3	(46.5)
Change in uncertain tax positions, including interest	0.9	(3.0)	0.9	(1.4)	(1.5)	13.2
State income tax, net of federal income tax effect	(0.7)	2.3	(1.9)	2.9	(4.1)	35.9
Tax effect resulting from foreign activities and foreign dividends	4.2	(14.0)	0.4	(0.6)	5.2	(45.6)
Impact of foreign rates	(2.1)	7.0	(2.3)	3.5	(4.7)	41.3
Non-deductible expenses	3.1	(10.3)	2.6	(4.0)	0.9	(7.9)
Research credits	(2.5)	8.3	(2.5)	3.8	(1.8)	15.8
Other, net	0.5	(1.7)	—	—	1.6	(14.0)
	<u>\$ (3.4)</u>	<u>11.3%</u>	<u>\$ (19.4)</u>	<u>29.8%</u>	<u>\$ (3.1)</u>	<u>27.2%</u>

The change in valuation allowance related to deferred tax assets includes changes to the valuation allowance on certain foreign net operating losses as well as domestic capital losses. The change in state valuation allowances are presented as part of the State income tax.

The change in uncertain tax positions includes changes related to Federal and Foreign uncertain tax positions as well as changes related to accrued interest. Changes in uncertain tax positions related to state taxes are presented as part of the state income tax.

The tax effect resulting from foreign activities and foreign dividends includes taxes provided on unremitted foreign earnings of foreign subsidiaries and withholding taxes on distributions.

The tax effect of temporary differences which give rise to significant portions of deferred income tax assets and liabilities as of December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Deferred Tax Assets:		
Accounts receivable	\$ 5.7	\$ 5.9
Inventories	4.0	1.5
Warranty accruals	18.9	18.7
Other assets	33.6	33.5
Goodwill	9.6	23.3
Insurance reserves	16.8	15.1
Prepaid pension assets	14.3	18.0
Capital losses and carry forwards	1.0	1.2
Net operating losses and credit carry forwards	69.4	53.0
	<u>173.3</u>	<u>170.2</u>
Valuation allowances	(50.9)	(54.3)
Net Deferred Tax Assets	<u>\$ 122.4</u>	<u>\$ 115.9</u>
Deferred Tax Liabilities:		
Property and equipment, net	\$ (13.6)	\$ (14.3)
Intangible assets, net	(172.3)	(191.1)
Other reserves, liabilities and assets, net	(12.8)	(5.9)
	<u>\$ (198.7)</u>	<u>\$ (211.3)</u>
Net Deferred Tax Liabilities	<u>\$ (76.3)</u>	<u>\$ (95.4)</u>

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At December 31, 2015, these amounts are reflected in the Company's consolidated balance sheet as long-term deferred tax assets recorded in other assets of approximately \$0.6 million and long-term deferred tax liabilities of approximately \$76.9 million. At December 31, 2014, these amounts are reflected in Company's consolidated balance sheet as short-term deferred tax assets of approximately \$28.1 million and long-term deferred tax liabilities of approximately \$123.5 million.

The Company has assessed the realizability of its deferred tax assets. The Company has sufficient reversing deferred tax liabilities available so that it is more likely than not that its federal deferred tax assets will be realized. The Company continues to maintain a valuation allowance for certain foreign net operating loss carryforwards, state net operating loss carryforwards, deferred state tax assets and for certain federal deferred tax assets that, if recognized, would result in capital losses. There is a current year increase in the valuation allowance for 2015 related to losses of certain foreign subsidiaries and losses in certain domestic jurisdictions. This is offset by a reduction in the valuation allowance related to foreign tax rate changes as well as the expiration of certain capital loss carryforwards. The Company has determined, based on the history of losses at these subsidiaries, and expectations for the future, a valuation allowance is required for these loss carry-forwards since it is more likely than not that these loss carry-forwards will not be realized.

At December 31, 2015, the Company has not provided United States income taxes or foreign withholding taxes on unremitted foreign earnings of approximately \$78.5 million, as those amounts are considered indefinitely invested. Due to the complexities of the U.S. tax law, including the effect of U.S. foreign tax credits, it is not practicable to estimate the amount of tax that might be payable on these earnings in the event they no longer are indefinitely reinvested. The Company has provided United States income taxes and foreign withholding taxes on approximately \$11.9 million of unremitted foreign earnings which are not indefinitely invested.

The Company has state net operating losses with a tax effect of approximately \$21.2 million in various jurisdictions which will begin to expire in 2016. The Company has a Federal net operating loss of approximately \$42.7 million which will expire in 2035.

The Company has approximately \$125.5 million of foreign net operating loss carry-forwards that, if utilized, would offset future foreign tax payments. Approximately \$111.7 million of these foreign net operating losses have an indefinite carry-forward period and the remaining foreign net operating losses will expire at various times beginning in 2017. The Company has recorded a full valuation allowance against all foreign net operating losses.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2015 and 2014 is as follows:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Balance at January 1,	\$ 24.2	\$ 30.7
Gross increases related to positions taken in the current year	4.9	2.2
Gross increases related to positions taken in prior periods	0.1	1.4
Decreases related to settlements with taxing authorities	—	(0.8)
Decreases due to lapse of statutes of limitation related to state tax and foreign items	(0.4)	(3.3)
Decreases related to positions taken in the current year	(0.1)	(6.0)
Balance at December 31,	<u>\$ 28.7</u>	<u>\$ 24.2</u>

As of January 1, 2014, the Company had a liability of approximately \$18.3 million for unrecognized tax benefits related to various federal, foreign and state income tax matters. The liability for unrecognized tax benefits at December 31, 2015 was approximately \$18.4 million. The liability for unrecognized tax benefits is included in other long-term liabilities on the accompanying consolidated balance sheet. The corresponding amount of gross unrecognized tax benefits was approximately \$28.7 million and \$24.2 million at December 31, 2015 and 2014, respectively. The difference between the total unrecognized tax benefits and the amount of the liability for unrecognized tax benefits represents unrecognized tax benefits that have been netted against deferred tax assets in accordance with ASC 740.

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During 2015, the Company increased the reserve for unrecognized tax benefits related to uncertainties surrounding the timing of deductions related to intercompany transactions with foreign affiliates. This item resulted in an increase of approximately \$2.8 million in the liability for unrecognized tax benefits, with a corresponding increase in deferred tax assets of approximately \$2.8 million.

During 2014, the Company recorded a liability for unrecognized tax benefits in connection with an ongoing tax matter involving a foreign subsidiary. The Company recorded a gross reserve of approximately \$1.3 million, and related accrued interest of approximately \$1.2 million. The Company also recorded a corresponding deferred tax asset related to the U.S. tax deduction for these items of approximately \$0.9 million. The total amount provided for this item was approximately \$1.6 million.

During 2014, the Company also reversed approximately \$3.3 million in uncertain tax positions related to the expiration of the statute of limitations. This amount was offset by a corresponding reversal of an offsetting related tax asset of approximately \$1.4 million.

During the first quarter of 2013, the Company reached a settlement related to certain state income tax matters. As a result, the Company settled total uncertain tax positions of approximately \$2.3 million and related interest of approximately \$0.8 million for approximately \$0.7 million. The settlement resulted in a tax benefit in the first quarter of 2013 of approximately \$1.6 million, net of related federal tax effect.

During the fourth quarter of 2013, the Company recorded a benefit of approximately \$2.1 million related to the expiration of the statute of limitations in connection with unrecognized tax benefits that related to periods prior to the acquisition of Ergotron. This unrecognized tax benefit was subject to an indemnification claim from the seller. As a result, the corresponding indemnification asset was written-off as part of SG&A in the fourth quarter of 2013.

As of December 31, 2015 and 2014, the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate is approximately \$12.8 million and \$11.3 million, respectively. The difference between the total amount of uncertain tax positions and the amount that would affect the effective tax rate represents the federal tax effect of state tax items, items that offset temporary differences, and items that will result in a reduction of other tax assets.

As of December 31, 2015, the Company had approximately \$0.4 million in unrecognized benefits relating to various tax issues, for which the statute of limitations is expected to expire in 2016.

As of December 31, 2015 and 2014, the total amount of accrued interest and penalties related to uncertain tax positions was approximately \$4.7 million and \$4.1 million, respectively. In 2015, the Company has recorded a provision of approximately \$0.4 million as part of its 2015 tax provision related to a net increase in interest on uncertain tax positions. The Company has included a benefit of approximately \$0.3 million as part of its 2014 tax provision related to a net reduction in interest on uncertain tax positions. The Company has included a provision of approximately \$0.3 million as part of its 2013 tax provision related to an increase of interest on uncertain tax positions. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state taxes.

The Company's consolidated federal tax return has been audited through the period ended December 31, 2009. The Company's state and foreign tax filings generally remain open to examination by the relevant tax authority for the tax years 2010 through 2015. One of the Company's foreign subsidiaries is currently under audit for the years 2007 - 2012. In connection with this audit, the Company has recorded a liability of approximately \$0.5 million for potential income tax liabilities and approximately \$0.4 million for additional VAT liabilities. The Company has reached a settlement related to income tax issues in these audit years, which is consistent with the reserves that were recorded.

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9. SEGMENT INFORMATION AND CONCENTRATION OF CREDIT RISK

The Company's five principal reporting segments are as follows:

- the Air Quality and Home Solutions segment,
- the Security and Control Solutions segment,
- the Ergonomic and Productivity Solutions segment,
- the Residential and Commercial HVAC segment, and
- the Custom and Commercial Air Solutions segment.

The Company's performance is significantly impacted by the levels of residential remodeling and replacement activity, as well as the levels of new residential and non-residential construction. The level of new construction activity and, to a lesser extent, the level of residential remodeling and replacement activity are affected by seasonality and cyclical factors such as interest rates, inflation, consumer spending, employment levels, and other macroeconomic factors, over which the Company has no control. Performance in any particular period could be impacted by the timing of sales to certain large customers.

The AQH segment primarily manufactures and distributes room and whole house ventilation products for the professional remodeling and replacement markets, residential new construction market, and do-it-yourself market. The principal products sold by this segment include kitchen range hoods, exhaust fans (such as bath fans and fan, heater and light combination units), and indoor air quality products (such as air exchangers and heat energy recovery ventilators). Sales of the Company's kitchen range hoods and exhaust fans within the AQH segment accounted for approximately 10.1% and 8.8%, respectively, of consolidated net sales for 2015, approximately 9.6% and 9.1%, respectively, of consolidated net sales in 2014 and approximately 10.7% and 9.8%, respectively, of consolidated net sales in 2013.

The SCS segment manufactures and distributes a broad array of products designed to provide convenience and security primarily for residential applications. The principal product categories in this segment include security, automation and access control equipment and systems. Sales of security systems and components within the SCS segment accounted for approximately 12.7%, 12.8%, and 10.1% of consolidated net sales for 2015, 2014, and 2013, respectively.

The ERG segment manufactures and distributes a broad array of innovative products designed with ergonomic features including wall mounts, carts, arms, desk mounts, workstations, and stands that attach to or support a variety of display devices such as notebook computers, computer monitors, and flat panel displays. Sales of the Company's digital display mounting and mobility products within the ERG segment accounted for approximately 13.9%, 11.6% and 12.0% of consolidated net sales in 2015, 2014 and 2013, respectively.

The RCH segment principally manufactures and sells split-system and packaged air conditioners and heat pumps, furnaces, air handlers and parts for the residential replacement and new construction markets. In addition, this segment produces unit heaters, radiant heaters and rooftop heating, ventilation and cooling products primarily for industrial and commercial applications. Sales of products sold in the RCH segment accounted for approximately 23.6%, 23.9% and 20.1% of consolidated net sales in 2015, 2014 and 2013, respectively.

The CAS segment manufactures and sells custom-designed and engineered HVAC products and systems, primarily in North America, for non-residential applications. The principal products sold by the segment are air handlers and large custom rooftop cooling and heating products. Sales of the Company's commercial air handlers within the CAS segment accounted for approximately 13.9%, 13.8% and 14.6% of consolidated net sales in 2015, 2014 and 2013, respectively.

The AVC segments manufacture and distribute a broad array of products primarily for the residential audio/video and professional video signal management markets. The principal product categories in these segments include residential audio/video equipment (including architectural speakers and power conditioners, among other products), home control equipment, and professional video signal management solutions.

No other single product class accounts for 10% or more of consolidated net sales.

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The accounting policies of the segments are the same as those described in Note 1, “*Summary of Significant Accounting Policies*”. The Company evaluates segment performance based on operating earnings before allocations of corporate overhead costs and impairment charges. With the exception of intersegment net sales between the SCS segment and the AVC segments, intersegment net sales and intersegment eliminations are not material for any of the periods presented. The financial statement impact of all acquisition accounting adjustments, including intangible asset amortization and goodwill, are reflected in the applicable operating segment, which are the Company’s reporting units. Unallocated assets consist primarily of cash and cash equivalents, marketable securities, prepaid and deferred income taxes, deferred debt expense and long-term restricted investments and marketable securities.

Net sales and operating earnings (loss) for the Company's reporting segments and the Company's loss before benefit from income taxes for the three years ended December 31, 2015 were as follows:

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions)</i>		
Net sales:			
AQH	\$ 598.1	\$ 595.1	\$ 600.5
SCS	427.3	436.5	347.2
ERG	350.2	294.4	274.5
RCH	594.9	607.5	460.8
CAS	426.3	450.0	425.2
AVC	129.3	162.6	179.7
Consolidated net sales	<u>\$ 2,526.1</u>	<u>\$ 2,546.1</u>	<u>\$ 2,287.9</u>
Operating earnings (loss):			
AQH	\$ 66.4	\$ 67.6	\$ 67.4
SCS	39.8	44.5	20.5
ERG	59.1	45.5	38.2
RCH	(18.4)	17.8	9.6
CAS	13.6	32.2	29.7
AVC	(20.8)	(19.2)	(12.9)
Subtotal	<u>139.7</u>	<u>188.4</u>	<u>152.5</u>
Impairment of long-lived assets and goodwill	(1.6)	(80.4)	(4.3)
Unallocated, net	<u>(52.7)</u>	<u>(65.1)</u>	<u>(60.3)</u>
Consolidated operating earnings	85.4	42.9	87.9
Net interest expense	(100.7)	(105.6)	(99.3)
Loss from debt retirement	(14.8)	(2.3)	—
Loss before benefit from income taxes	<u>\$ (30.1)</u>	<u>\$ (65.0)</u>	<u>\$ (11.4)</u>

Intersegment sales between the SCS segment and the AVC segments totaled approximately \$12.2 million, \$15.6 million and \$17.8 million for 2015, 2014 and 2013, respectively.

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Depreciation expense, amortization expense and capital expenditures for the Company's segments are presented in the table that follows for the periods presented:

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions)</i>		
Depreciation Expense:			
AQH	\$ 9.3	\$ 9.2	\$ 12.0
SCS	4.9	4.1	4.6
ERG	4.8	4.6	4.8
RCH	15.5	12.7	9.4
CAS	8.6	6.8	6.5
AVC	4.8	3.3	2.2
Unallocated	2.5	2.5	1.1
Consolidated depreciation expense	<u>\$ 50.4</u>	<u>\$ 43.2</u>	<u>\$ 40.6</u>
Amortization expense:			
AQH ⁽¹⁾	\$ 15.5	\$ 15.4	\$ 15.4
SCS ⁽²⁾	13.6	13.2	13.5
ERG ⁽³⁾	18.1	12.9	12.9
RCH ⁽⁴⁾	15.3	11.8	0.9
CAS	5.3	5.6	5.4
AVC	—	3.3	6.5
Unallocated	—	—	—
Consolidated amortization expense	<u>\$ 67.8</u>	<u>\$ 62.2</u>	<u>\$ 54.6</u>
Capital Expenditures:			
AQH	\$ 15.3	\$ 10.0	\$ 7.6
SCS	4.2	2.9	6.6
ERG	4.7	3.6	3.5
RCH	7.7	6.7	6.3
CAS	8.7	6.3	10.8
AVC	1.6	1.8	3.9
Unallocated	2.6	7.6	5.1
Consolidated capital expenditures ⁽⁵⁾⁽⁶⁾	<u>\$ 44.8</u>	<u>\$ 38.9</u>	<u>\$ 43.8</u>

- (1) Includes an increase to cost of revenues for inventory acquired in business combinations of approximately \$0.2 million for 2013.
- (2) Includes an increase to cost of revenues for inventory acquired in business combinations of approximately \$3.1 million (related to the acquisition of 2GIG) for 2013.
- (3) Includes an increase to cost of revenues for inventory acquired in business combinations of approximately \$0.5 million (related to the acquisition of Anthro) for 2015.
- (4) Includes an increase to cost of revenues for inventory acquired in business combinations of approximately \$2.2 million (related to the acquisitions of Reznor and Phoenix) for 2014.
- (5) Excludes capital expenditures financed under capital leases of approximately \$0.5 million and \$0.1 million for 2014 and 2013, respectively.
- (6) For the year ended December 31, 2013, does not include the addition of approximately \$24.5 million and \$7.0 million related to the 2013 construction in progress of new facilities in Mexico for the RCH and CAS segments, respectively. See Note 6, "Commitments and Contingencies".

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Segment assets at December 31, 2015 and 2014 for the Company's reporting segments are presented in the table that follows:

	December 31, 2015	December 31, 2014
	<i>(Dollar amounts in millions)</i>	
Segment Assets:		
AQH	\$ 574.1	\$ 585.7
SCS	377.3	339.6
ERG	419.7	365.0
RCH	502.8	549.6
CAS	157.0	179.3
AVC	46.0	63.2
	<u>2,076.9</u>	<u>2,082.4</u>
Unallocated:		
Cash and cash equivalents, including current restricted cash	24.9	59.0
Deferred tax assets	0.6	28.1
Other assets, including long-term restricted investments	41.5	39.6
Consolidated assets	<u>\$ 2,143.9</u>	<u>\$ 2,209.1</u>

Concentrations of Risk

Foreign net sales were approximately 16.0%, 16.5%, and 16.5% of consolidated net sales for 2015, 2014, and 2013, respectively. Foreign net sales are attributed based on the location of the Company's subsidiary responsible for the sale. Excluding financial instruments and deferred income taxes, foreign long-lived assets were approximately 10.9% and 11.8% of consolidated long-lived assets at December 31, 2015 and 2014, respectively.

The Company operates internationally and is exposed to market risks from changes in foreign exchange rates. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across many different geographical regions. These risks are not significantly dissimilar among the Company's five reporting segments. Accounts receivable from customers related to foreign operations at December 31, 2015 and 2014 was approximately 18.8% and 20.0% of consolidated accounts receivable, respectively.

No single customer accounts for 10% or more of consolidated net sales or accounts receivable.

For reasons of quality assurance, scarcity or cost effectiveness, certain components and raw materials used in the manufacture of the Company's products are available only from a limited number of suppliers. In the event that the Company is unable to obtain sufficient quantities of raw materials or components on commercially reasonable terms or in a timely manner, the Company's ability to manufacture its products on a timely and cost-competitive basis may be compromised, which may have a material adverse effect on its business, financial condition and results of operations. To date, the Company has not experienced any material adverse effect on its financial condition or results of operations due to supplier limitations.

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10. EQUITY ACTIVITY

The authorized capital stock of Nortek consists of 10,000,000 shares of preferred stock with a \$0.01 per share par value, none of which were issued or outstanding at December 31, 2015 and 2014, and 90,000,000 shares of common stock with a \$0.01 per share par value, of which 16,259,040 shares and 16,254,153 shares were outstanding at December 31, 2015 and 2014, respectively.

Other Stock Transactions

In connection with the emergence from bankruptcy in 2009, Nortek issued warrants that were exercisable for a period of five years to purchase 789,474 shares of common stock at an exercise price of \$52.80 per share. During 2014 and 2013, approximately 629,301 and 46,837 warrants, respectively, were exercised for shares of Nortek's common stock primarily through net share settlements as permitted under the warrant agreement. The remaining unexercised warrants expired in 2014 and there are no warrants outstanding as of December 31, 2015 or 2014.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net earnings (loss), unrealized gains and losses from foreign currency translation, and pension liability adjustments, net of tax attributes, which substantially relate to the pension liability adjustment. The components of the Company's comprehensive income (loss) and the effect on earnings for the periods presented are detailed in the accompanying consolidated statements of comprehensive income (loss).

The balances of each component, net of tax attributes, within accumulated other comprehensive loss for the three years ended December 31, 2015 are as follows:

	Foreign Currency Translation	Pension Liability Adjustment	Total Accumulated Other Comprehensive Loss
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2012	\$ 2.1	\$ (24.4)	\$ (22.3)
Other comprehensive (loss) income before reclassifications	(3.0)	8.3	5.3
Amounts reclassified from AOCI to SG&A ⁽¹⁾	—	0.7	0.7
Net other comprehensive (loss) income, December 31, 2013	<u>(3.0)</u>	<u>9.0</u>	<u>6.0</u>
Balance, December 31, 2013	\$ (0.9)	\$ (15.4)	\$ (16.3)
Other comprehensive (loss) income before reclassifications	(7.9)	(11.7)	(19.6)
Amounts reclassified from AOCI to SG&A ⁽¹⁾	—	0.2	0.2
Net other comprehensive (loss) income, December 31, 2014	<u>(7.9)</u>	<u>(11.5)</u>	<u>(19.4)</u>
Balance, December 31, 2014	\$ (8.8)	\$ (26.9)	\$ (35.7)
Other comprehensive (loss) income before reclassifications	(10.5)	2.3	(8.2)
Amounts reclassified from AOCI to SG&A ⁽¹⁾	—	1.4	1.4
Net other comprehensive (loss) income, December 31, 2015	<u>(10.5)</u>	<u>3.7</u>	<u>(6.8)</u>
Balance, December 31, 2015	<u>\$ (19.3)</u>	<u>\$ (23.2)</u>	<u>\$ (42.5)</u>

(1) For additional information, see Note 13, "Pension, Profit Sharing and & Other Post-Retirement Benefits".

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11. LOSS PER SHARE

Basic earnings (loss) per share amounts are computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share amounts are computed using the weighted average number of common shares outstanding and dilutive potential common shares outstanding during each period.

The reconciliations between basic and diluted loss per share for the three years ended December 31, 2015 are as follows:

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions, except per share data)</i>		
Net loss	\$ (26.7)	\$ (45.6)	\$ (8.3)
Weighted average common shares outstanding	15,943,527	15,635,710	15,371,932
Dilutive effect of common share equivalents	—	—	—
Dilutive shares outstanding	<u>15,943,527</u>	<u>15,635,710</u>	<u>15,371,932</u>
Basic loss per share	<u>\$ (1.67)</u>	<u>\$ (2.92)</u>	<u>\$ (0.54)</u>
Diluted loss per share	<u>\$ (1.67)</u>	<u>\$ (2.92)</u>	<u>\$ (0.54)</u>

The effect of certain potential common share equivalents, as outlined below, were excluded from the computation of diluted shares outstanding for 2015, 2014 and 2013 as their inclusion would have been anti-dilutive. Restricted stock awards which vest based upon achievement of performance targets were excluded from the diluted shares outstanding as the performance targets had not been met as of the end of 2015, 2014 and 2013.

As the Company has reported a net loss for each of the three years ended December 31, 2015, anti-dilutive shares consist of those common stock equivalents that have either an exercise price above the average stock price for the period or the common stock equivalents' related average unrecognized stock compensation expense is sufficient to "buy back" the entire amount of shares.

A summary of the weighted average anti-dilutive shares excluded from each of the three years ended December 31, 2015 is as follows:

	For the year ended December 31,		
	2015	2014	2013
Warrants	—	461,275	652,048
Restricted stock	319,520	407,656	501,021
Stock options	<u>586,323</u>	<u>599,692</u>	<u>669,942</u>
Total	<u>905,843</u>	<u>1,468,623</u>	<u>1,823,011</u>

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12. SHARE-BASED COMPENSATION

Incentive Compensation Plan

On December 17, 2009, the Company established the 2009 Omnibus Incentive Plan (the “Incentive Plan”) which allows for grants of options, stock appreciation rights, restricted stock, other stock-based awards and performance-based compensation awards. The Incentive Plan is administered by the Board of Directors, the Compensation Committee of the Board of Directors, or any other committee designated by the Board of Directors to administer the Incentive Plan (the “Committee”). Participants consist of such employees, directors and other individuals providing services to the Company, or any subsidiary or affiliate, as the Committee in its sole discretion determines and whom the Committee may designate from time to time to receive awards.

Under the 2009 Plan, 2,885,907 shares were authorized for grant through December 17, 2019, of which 1,076,555 may be in the form of incentive stock options. The maximum number of shares for which options and stock appreciation rights may be granted to any participant in any calendar year is 627,990, and the maximum number of shares with respect to other awards denominated in shares in any calendar year is 627,990. The maximum value of cash payable with respect to awards denominated in cash or property that may be granted to any participant in any plan year is \$5.0 million, subject to certain adjustments as defined. In the event that any outstanding award expires, is forfeited, canceled or otherwise terminated without the issuance of shares or is otherwise settled for cash, the shares subject to such award shall again be available for awards. At December 31, 2015, there are 1,024,296 remaining shares available for grant under the Incentive Plan.

Stock Options

The Company has awarded options with time based vesting to certain key employees. These options vest annually, on the anniversary of the date of grant, over three or five years provided the recipient remains employed by the Company. All options expire on the tenth anniversary of the grant date, unless terminated earlier.

The following table summarizes the Company's common stock option transactions for the three years ended December 31, 2015.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding, December 31, 2012	660,333	\$ 25.60		
Granted	85,930	72.42		
Exercised	(74,430)	20.62		\$ 3.7
Forfeited	(41,153)	29.61		
Outstanding, December 31, 2013	630,680	\$ 32.31		
Granted	75,780	73.75		
Exercised	(131,974)	24.41		\$ 7.4
Forfeited	(50,708)	44.02		
Outstanding, December 31, 2014	523,778	\$ 39.16		
Granted	136,985	80.65		
Exercised	(51,954)	30.71		\$ 2.5
Forfeited	(16,326)	70.65		
Outstanding, December 31, 2015	592,483	\$ 48.63	6.8	
Options vested and exercisable as of December 31, 2015	355,882	\$ 35.31	5.8	\$ 5.0 ⁽¹⁾
Remaining options expected to vest as of December 31, 2015	209,242	\$ 67.41	8.2	\$ 0.7 ⁽¹⁾

(1) The aggregate intrinsic value of options represents the total pre-tax intrinsic value (the difference between the estimated fair value of the Company's stock on December 31, 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2015. This amount changes based upon the fair market value of the Company's common stock.

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The weighted average grant date fair value of options granted was approximately \$32.94, \$29.92 and \$28.27 during the years ended December 31, 2015, 2014 and 2013, respectively.

The estimated fair value of the options granted was measured on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31,		
	2015	2014	2013
Risk-Free Interest Rate	1.72%	1.59%	0.77%
Expected Term	6.0 years	6.0 years	6.0 years
Expected Volatility	40.0%	40.0%	40.0%
Expected Dividend Yield	—%	—%	—%

The risk-free interest rate for periods within the life of the option is based upon a blend of U.S. Treasury bond rates with maturities equal to the expected term of the options. The expected term assumption was derived using the simplified method, as described in SEC Staff Accounting Bulletin Topic 14.D.2, *"Share-Based Payment - Certain Assumptions Used in Valuation Methods"*. The expected volatility assumption is based upon the historical volatility of comparable public companies' stock as well as the implied volatility of outstanding options for the comparable companies that had such options. The dividend yield represents the expected dividends on the Company's common stock for the expected term of the option.

The amount of stock-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on an analysis of historical forfeitures, we have determined a specific forfeiture rate for certain employee groups based on the award date and have applied forfeiture rates ranging from approximately 0% to 29% at December 31, 2015 depending on the specific employee group. This analysis is re-evaluated periodically and the forfeiture rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those awards that vest.

As of December 31, 2015, there was approximately \$4.0 million of unrecognized compensation cost related to stock options granted under the Incentive Plan. This cost is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.6 years. Total compensation expense related to stock options was approximately \$2.9 million, \$2.3 million and \$2.2 million for the three years ended December 31, 2015, 2014 and 2013, respectively. The related tax benefit recognized for 2015, 2014 and 2013 totaled approximately \$1.1 million, \$0.9 million and \$0.8 million, respectively.

Restricted Stock

The Company has awarded performance based restricted shares of common stock to certain key employees. These shares are eligible to become vested in annual installments and, in some cases cumulatively, based upon the achievement of specified levels of Adjusted EBITDA, as defined, for each year. The shares, if any, are vested as of December 31 of each year. However, as the number of shares vesting is contingent upon the Company's financial results, determined based upon the issuance of audited financial statements, the actual issuance of shares to recipients does not occur until the first quarter of the following year.

The Company has also awarded time-based restricted shares of common stock to certain key employees. These shares vest annually, on the anniversary of the date of grant, over three or five years provided the recipient remains employed by the Company.

Restricted stock has the same cash dividend and voting rights as other common stock and, once issued, is considered to be legally issued and outstanding (even when unvested). Recipients of restricted stock are entitled to dividends when and if the Company pays a cash dividend on its common stock. Such dividends are not payable to the recipient until the vesting of the related restricted shares.

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The following table summarizes the Company's restricted stock activity for the three years ended December 31, 2015:

	Time-Based		Performance-Based	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested, December 31, 2012	128,279	\$ 34.30	372,499	\$ 29.20
Granted	51,465	72.45	98,018	72.46
Vested	(43,514)	35.68	(121,794)	40.75
Forfeited / Canceled	(16,911)	46.64	(133,007)	43.89
Unvested, December 31, 2013	119,319	\$ 48.50	215,716	\$ 60.76
Granted	57,954	73.80	99,978	73.86
Vested	(50,811)	45.18	(9,616)	50.28
Forfeited / Canceled	(20,796)	62.40	(65,139)	62.46
Unvested, December 31, 2014	105,666	\$ 61.24	240,939	\$ 66.80
Granted	64,773	80.69	4,303	81.33
Vested	(46,408)	57.22	(21,432)	58.36
Forfeited / Canceled	(10,644)	73.03	(61,910)	60.39
Unvested, December 31, 2015	113,387	\$ 72.89	161,900	\$ 70.76

The aggregate fair value of shares, calculated as of the vesting date, vesting during the years ended December 31, 2015, 2014 and 2013 was approximately \$5.1 million, \$4.8 million and \$12.1 million, respectively.

The cost of the performance based restricted stock awards, calculated as the estimated grant date fair value, net of estimated forfeitures, is recognized over the remaining service period if it is probable that the restricted shares, or any portion thereof, will vest. The cost of the time-based restricted stock awards, net of estimated forfeitures, is being recognized on a straight-line basis over the related vesting period. The estimated fair value of the grants is based upon the closing price of the Company's stock on the date of grant. Total compensation expense recognized for the years ended December 31, 2015, 2014 and 2013 related to restricted stock was approximately \$2.5 million, \$3.9 million and \$8.3 million, respectively. The related tax benefit recognized for the years ended December 31, 2015, 2014 and 2013 totaled approximately \$1.0 million, \$1.5 million and \$3.2 million, respectively.

For non-vested restricted stock subject to time-based vesting conditions outstanding as of December 31, 2015, the Company had approximately \$4.8 million of unrecognized stock-based compensation expense, which is expected to be recognized over a weighted average period of approximately 1.8 years.

During the third quarter of 2015, the Company concluded that certain of its performance-based restricted stock awards were no longer probable of vesting due to a review of financial performance through the third quarter of 2015 and an updated financial outlook. As a result of these awards no longer being probable of vesting, the Company reversed approximately \$1.3 million of share-based compensation expense recognized in prior periods. At December 31, 2015, the Company had 161,900 shares of non-vested restricted stock subject to performance-based vesting conditions outstanding, all of which were not probable of vesting. For non-vested restricted stock subject to performance-based vesting conditions outstanding that were not probable of vesting as of December 31, 2015, the Company had approximately \$11.5 million of unrecognized stock-based compensation expense. If and when any additional portion of these awards are deemed probable to vest, the Company will reflect the effect of the change in estimate in the period of change by recording a cumulative catch-up adjustment to retroactively apply the new estimate.

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13. PENSION, PROFIT SHARING AND OTHER POST-RETIREMENT BENEFITS

Nortek and its subsidiaries have various pension plans, supplemental retirement plans for certain officers, profit sharing, and other post-retirement benefit plans requiring contributions to qualified trusts and union administered funds.

The Company's pension plans offer subsidized early retirement and lump sum payments. The Company's actuaries use assumptions to capture the value of these forms of payments within the liability calculation.

The Company's policy is to generally fund currently at least the minimum required annual contribution of its various qualified defined benefit plans. At December 31, 2015, the Company expects to contribute approximately \$6.0 million to its defined benefit pension plans in 2016.

Impact on Financial Statements

Pension, profit sharing, 401(k) match contributions, and other post-retirement health benefit expense charged to operations aggregated approximately \$10.5 million, \$9.4 million and \$7.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. The increase in pension, profit sharing and other post-retirement health benefit expense for 2015 as compared to 2014 is due primarily to an increase in the required recognition of the plans' cumulative unrecognized loss.

The increase in pension, profit sharing and other post-retirement health benefit expense for 2014 as compared to 2013 is due primarily to increases in the company matched contribution on 401(k) plans and increases in profit sharing accruals at certain of the Company's subsidiaries. This increase was partially offset by a decrease in the defined benefit plan expense attributable to a reduction in the required recognition of the cumulative unrecognized loss.

The Company's net periodic benefit cost (income) for its defined benefit and post-retirement health benefit plans for the years ended December 31, 2015, 2014 and 2013 consists of the following components:

	For the year ended December 31,					
	2015		2014		2013	
	Defined Benefit	Post- Retirement Health Benefits	Defined Benefit	Post- Retirement Health Benefits	Defined Benefit	Post- Retirement Health Benefits
	<i>(Dollar amounts in millions)</i>					
Service cost	\$ 1.0	\$ —	\$ 0.6	\$ —	\$ 0.5	\$ —
Interest cost	6.5	—	7.5	0.1	6.8	0.1
Expected return on plan assets	(7.4)	—	(7.7)	—	(6.8)	—
Net amortization of actuarial loss (gain)	1.5	(0.1)	0.3	(0.1)	0.8	(0.1)
Net periodic benefit cost (income)	<u>\$ 1.6</u>	<u>\$ (0.1)</u>	<u>\$ 0.7</u>	<u>\$ —</u>	<u>\$ 1.3</u>	<u>\$ —</u>

Amortization of unrecognized net gain or loss resulting from experience different from that assumed and from changes in assumptions is included as a component of net period benefit cost, if as of the beginning of the year, the unrecognized net gain or loss exceeds 10% of the projected benefit obligation. If amortization is required, the amount recognized is the excess divided by the average remaining service period of active employees expected to receive benefits under the plan. In cases where almost all of the participants are inactive, average life expectancy is utilized instead of average remaining service. For the qualified plans, the Company uses average future lifetime as the amortization period.

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The following table outlines the rollforward of the benefit obligation and plan assets for the defined benefit and post-retirement health benefit plans for the years ended December 31, 2015 and 2014:

	December 31,			
	2015		2014	
	Defined Benefit	Post-Retirement Health Benefits	Defined Benefit	Post-Retirement Health Benefits
	<i>(Dollar amounts in millions)</i>			
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 187.2	\$ 1.7	\$ 177.8	\$ 1.9
Service cost	1.0	—	0.6	—
Interest cost	6.5	—	7.5	0.1
Gain due to foreign exchange	(2.4)	—	(2.5)	—
Actuarial (gain) loss, excluding assumption changes	(4.8)	(0.2)	0.8	(0.4)
Actuarial (gain) loss due to assumption changes	(5.8)	—	21.4	0.1
Benefits and expenses paid	(16.4)	—	(18.4)	—
Benefit obligation at December 31,	<u>\$ 165.3</u>	<u>\$ 1.5</u>	<u>\$ 187.2</u>	<u>\$ 1.7</u>
Change in plan assets:				
Fair value of plan assets at January 1,	\$ 133.1	\$ —	\$ 134.0	\$ —
Actual (loss) gain on plan assets	(0.2)	—	13.1	—
Loss due to foreign exchange	(1.7)	—	(1.9)	—
Employer contribution	5.8	—	6.4	0.1
Benefits and expenses paid	(16.9)	—	(18.5)	(0.1)
Fair value of plan assets at December 31,	<u>\$ 120.1</u>	<u>\$ —</u>	<u>\$ 133.1</u>	<u>\$ —</u>
Funded status at end of year	<u>\$ (45.2)</u>	<u>\$ (1.5)</u>	<u>\$ (54.1)</u>	<u>\$ (1.7)</u>
Accumulated benefit obligation at end of year	<u>\$ 165.3</u>	<u>N/A</u>	<u>\$ 186.9</u>	<u>N/A</u>

The following table outlines the funded status amounts recognized in the consolidated balance sheet at December 31, 2015 and 2014:

	December 31,			
	2015		2014	
	Defined Benefit	Post-Retirement Health Benefits	Defined Benefit	Post-Retirement Health Benefits
	<i>(Dollar amounts in millions)</i>			
Current liabilities	\$ 0.8	\$ 0.2	\$ 0.8	\$ 0.3
Non-current liabilities	44.4	1.3	53.3	1.4
	<u>\$ 45.2</u>	<u>\$ 1.5</u>	<u>\$ 54.1</u>	<u>\$ 1.7</u>

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Other changes in assets and obligations recognized in accumulated other comprehensive income (loss) for the years ended December 31, 2015, 2014 and 2013 were as follows:

	For the year ended December 31,					
	2015		2014		2013	
	Defined Benefit	Post-Retirement Health Benefits	Defined Benefit	Post-Retirement Health Benefits	Defined Benefit	Post-Retirement Health Benefits
	<i>(Dollar amounts in millions)</i>					
Actuarial gain (loss) arising during the period	\$ 3.1	\$ 0.4	\$ (16.6)	\$ 0.3	\$ 14.1	\$ 0.2
Amortization to net (loss) earnings of net actuarial (gain) loss	1.5	(0.1)	0.3	(0.1)	0.7	—
Deferred income taxes on pension liability	(1.1)	(0.1)	4.7	(0.1)	(5.9)	(0.1)
Other comprehensive income (loss)	<u>\$ 3.5</u>	<u>\$ 0.2</u>	<u>\$ (11.6)</u>	<u>\$ 0.1</u>	<u>\$ 8.9</u>	<u>\$ 0.1</u>

The adjustment to accumulated other comprehensive income represents the net unrecognized actuarial gains and losses. At December 31, 2015, 2014 and 2013, the net actuarial loss recognized within accumulated other comprehensive loss that has not yet been recognized as a component of net periodic pension cost, net of tax, was approximately \$23.2 million, \$26.9 million and \$15.4 million, respectively, which includes the defined benefit and post-retirement health benefit plans. The Company expects to recognize approximately \$1.1 million in accumulated other comprehensive income as components of net periodic benefit cost in the year ended December 31, 2016 for its defined benefit plans and an immaterial amount for its post-retirement health benefit plans.

Information for the Company's defined benefit plans with accumulated benefit obligations in excess of plan assets as of December 31, 2015 and 2014 is as follows:

	December 31,	
	2015	2014
	<i>(Dollar amounts in millions)</i>	
Projected benefit obligation	\$ 165.3	\$ 187.2
Accumulated benefit obligation	\$ 165.3	\$ 186.9
Plan assets	\$ 120.1	\$ 133.1

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Pension Assets and Investment Policies

The Company's pension plan assets by asset category and by investment objective for equity securities, investment funds and investments in limited partnerships are shown in the tables below. Pension plan assets for the foreign plan relate to the Company's pension plan in the United Kingdom. The investment objective for equity securities represents the principal criteria by which investment manager performance is evaluated. Individual investments included within these groupings may include foreign or other equity investments that are reflective of the overall investment objective for the investment manager.

Asset Category	December 31, 2015		December 31, 2014	
	Investment	% of Total	Investment	% of Total
	<i>(Dollar amounts in millions)</i>			
Interest bearing cash:				
Domestic plans	\$ 1.5	1.2%	\$ 1.2	0.9%
Foreign plan	0.1	0.1	—	—
Fixed income securities:				
Domestic plans	52.3	43.6	54.5	40.9
Investment funds:				
Domestic plans	35.8	29.8	43.2	32.5
Investments in pooled pension funds:				
Foreign plan	29.8	24.8	32.0	24.0
Other investments:				
Domestic plans	0.6	0.5	2.2	1.7
Total plan assets	<u>\$ 120.1</u>	<u>100.0%</u>	<u>\$ 133.1</u>	<u>100.0%</u>
Investment Funds by investment objective:				
Domestic large blend	\$ 14.7	12.2%	\$ 17.6	13.2%
Foreign large blend	7.1	5.9	8.2	6.2
Domestic mid cap blend	5.3	4.5	6.6	5.0
Domestic small blend	4.2	3.5	5.3	4.0
Diversified emerging markets	2.3	1.9	2.8	2.1
Real estate	2.2	1.8	2.7	2.0
	<u>\$ 35.8</u>	<u>29.8%</u>	<u>\$ 43.2</u>	<u>32.5%</u>
Investments in pooled pension funds by investment objective:				
Fixed income	\$ 11.8	9.8%	\$ 13.0	9.7%
International hedge	18.0	15.0	19.0	14.3
	<u>\$ 29.8</u>	<u>24.8%</u>	<u>\$ 32.0</u>	<u>24.0%</u>

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The Company's overall weighted-average asset allocations for its domestic and foreign plans at December 31, 2015 and 2014 were as follows:

Asset Category	December 31,	
	2015	2014
Cash and cash equivalents	1.3%	0.9%
Equity based	44.8	46.7
Fixed income based	53.9	52.4
	<u>100.0%</u>	<u>100.0%</u>

The Company's domestic qualified defined benefit plans' and foreign pension plan's assets are invested to maximize returns without undue exposure to risk. The domestic plans' investment objectives are to produce a total return exceeding the median of a universe of portfolios with similar average asset allocation and investment style objectives, and to earn a return, net of fees, greater or equal to the long-term rate of return used by the Company in determining pension expense. The foreign plan investment objectives for the fixed income pooled pension fund are to provide capital growth and income primarily through investment in non-government debt securities. The foreign plan investment objectives for the international hedge pooled pension fund are to provide positive investment returns in all market conditions over the medium to long-term and the investment strategies include the use of advanced derivative techniques that result in a highly diversified portfolio. As indicated in the tables above, investment risk for both the domestic and foreign plans are controlled by maintaining a portfolio of assets that is diversified across a variety of asset classes and investment styles in order to minimize exposure with respect to the size of individual securities and industry concentration. The asset allocation policies of the plans are consistent with the established investment objectives and risk tolerances. The asset allocation policies are developed by examining the historical relationships of risk and return among asset classes, and are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest possible risk.

The Company uses a liability-driven investment approach for its U.S. pension assets as part of its defined benefit plan terminal funding strategy in order to minimize the volatility of the plans' funded status. The allocation to equity investments as a percentage of plan assets are diversified across low-cost index funds to capture higher expected long-term returns while minimizing cost. The fixed income allocation is invested in a manner such that any changes to the corporate bond yield curve will result in proportional changes to both the fixed income portfolio value and the plans' terminal funding liability. As the funded status of the plans improves (as measured on a termination basis), the Company will reduce the plans' equity exposure and increase the amount of fixed income investment that is aligned with the plans' expected benefit obligations. This process represents an ongoing reduction in equity return volatility risk that simultaneously reduces interest rate risk associated with both the plans' fixed income portfolio value and terminal funding liability. This approach is expected to significantly reduce the variability of total plan funding costs without increasing the Company's cumulative contributions. The foreign plan target allocation for 2016 is to split the pension assets broadly into 60% growth investments and 40% bond investments consistent with the 2015 allocation.

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The following tables, set forth by level within the fair value hierarchy (see Note 14, “Fair Value”), the pension plan assets carried at fair value as of December 31, 2015 and 2014:

Assets at Fair Value as of December 31, 2015				
	Level 1	Level 2	Level 3	Total
<i>(Dollar amounts in millions)</i>				
Interest-bearing cash	\$ 1.6	\$ —	\$ —	\$ 1.6
Corporate debt	52.3	—	—	52.3
Investments in Registered Investment Companies	35.8	—	—	35.8
Investments in pooled pension funds	29.8	—	—	29.8
Other long-term investments	0.6	—	—	0.6
Total investments at fair value	<u>\$ 120.1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 120.1</u>

Assets at Fair Value as of December 31, 2014				
	Level 1	Level 2	Level 3	Total
<i>(Dollar amounts in millions)</i>				
Interest-bearing cash	\$ 1.2	\$ —	\$ —	\$ 1.2
Corporate debt	54.5	—	—	54.5
Investments in Registered Investment Companies	43.2	—	—	43.2
Investments in pooled pension funds	32.0	—	—	32.0
Other long-term investments	2.2	—	—	2.2
Total investments at fair value	<u>\$ 133.1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 133.1</u>

Assumptions

The assumptions used in determining pension, supplemental retirement plans and post-retirement costs and the projected benefit obligation are as follows:

	For the Year Ended December 31,		
	2015	2014	2013
Discount rate for projected benefit obligation	2.00% - 3.85%	2.00% - 3.65%	3.00% - 4.50%
Discount rate for pension costs	2.00% - 3.65%	3.00% - 4.50%	2.00% - 4.40%
Expected long-term average return on plan assets	5.04% - 5.83%	5.83% - 6.19%	5.36% - 5.50%
Rate of compensation increase	2.00%	2.00%	2.00% - 3.00%

The Company utilizes long-term investment-grade bond yields as the basis for selecting a discount rate by which plan obligations are measured. An analysis of projected cash flows for each plan is performed in order to determine plan-specific duration. Discount rates are selected based on high quality corporate bond yields of similar durations.

During 2014, the Society of Actuaries released new mortality tables that reflect increased life expectancy over the previous tables. The Company incorporated these new tables in the 2014 fair value measurement of its U.S. pension plans which resulted in an increase in the projected benefit obligation as of December 31, 2014. The Company used the updated mortality tables released by the Society of Actuaries in 2015 for the 2015 fair value measurement of its U.S. pension plans.

For purposes of calculating the post-retirement health benefit cost, a medical inflation rate of 5.00% was assumed for 2015 and it is assumed to stay at 5.00% each year into the future. A one percentage point change in assumed health care cost trends does not have a significant effect on the amount of liabilities recorded in the consolidated balance sheet at December 31, 2015.

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At December 31, 2015, the expected future benefit payments for the defined benefit and post-retirement health benefit plans were as follows:

<u>Year Ended December 31,</u>	<u>Defined Benefit</u>	<u>Post-Retirement Health Benefits</u>
	<i>(Dollar amounts in millions)</i>	
2016	\$ 11.8	\$ 0.2
2017	11.9	0.2
2018	11.8	0.2
2019	11.6	0.2
2020	11.4	0.1
2021-2025	53.3	0.4

Other Plans

In conjunction with the acquisition of Reznor, the Company assumed a liability to fund certain post-retirement benefits of Reznor in Belgium. The assets of the Belgian defined benefit plan are composed of insurance policies. The contributions (or premiums) the Company pays are used to purchase insurance policies that provide for specific benefit payments to the plan participants. The benefit formula is determined independently by the Company upon retirement of an individual plan participant, the insurance contracts purchased are converted to provide specific benefits for the participant. As of December 31, 2015, the fair value of these plan assets was approximately \$0.9 million and are considered to be Level 3 financial instruments. The total funded status as of December 31, 2015 was a liability of approximately \$0.3 million.

14. DERIVATIVES AND FAIR VALUE

The Company manufactures, markets and sells its products globally. As noted previously, for 2015, approximately 16.0% of the Company's sales were generated outside the United States in local currencies. The Company also incurs certain manufacturing, marketing and selling costs in international markets in local currency.

Accordingly, the Company's earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the U.S. Dollar, the Company's reporting currency. During the third quarter of 2015, the Company began to enhance its program to mitigate exposure to changes in foreign currency exchange rates. The enhancement to the program included the use of foreign currency forward contracts, which were entered into during the second half of 2015, to minimize, for a period of time, the impact on its financial results from changes in foreign exchange rates, primarily the British Pound Sterling, Canadian Dollar and the Chinese Yuan Renminbi. During the second half of 2015, the Company also entered into certain foreign currency forward contracts to hedge the anticipated cash flows from transactions denominated in foreign currencies, primarily the Mexican Peso. This does not eliminate the impact of the volatility of foreign exchange rates.

Non-Designated Foreign Currency Contracts

All of the Company's foreign currency hedge contracts to date have been non-designated contracts. The Company's foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, which are generally one month. They are not designated as cash flow or fair value hedges under ASC 815, "Derivatives and Hedging" ("ASC 815"). These forward contracts are marked-to-market with changes in fair value recorded in the consolidated statement of operations. The Company had non-designated foreign currency hedge contracts under ASC 815 outstanding with a notional amount of approximately \$22.9 million as of December 31, 2015. There were no material unrealized gains or losses related to contracts outstanding as of December 31, 2015. During the second half of 2015, the Company settled non-designated foreign currency hedge contracts with a notional amount totaling approximately \$53.3 million resulting in a realized loss upon settlement of approximately \$0.6 million. The losses related to non-designated foreign currency hedge contracts are not material, and are included as a component of SG&A within the Company's consolidated statement of operations. The losses related to the non-designated foreign currency hedge contracts are included within operating activities in the consolidated statement of cash flows.

ASC 815 requires all derivative instruments to be recognized at their fair value as either assets or liabilities on the balance sheet. The Company has determined the fair value of its derivative instruments using the framework prescribed by ASC 820, "Fair Value Measurements" ("ASC 820"), by considering the estimated amount it would receive or pay to sell or transfer these

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instruments at the reporting date and by taking into account currency exchange rates, the creditworthiness of the counterparty for assets, and the Company's creditworthiness for liabilities. Generally, the Company uses inputs that include quoted prices for similar assets or liabilities in active markets. As of December 31, 2015, the Company has classified its derivative assets and liabilities within Level 2 of the fair value hierarchy prescribed by ASC 820, as discussed further below, because these observable inputs are available for substantially the full term of its derivative instruments. Neither the total derivative assets nor the total derivative liabilities were material as of December 31, 2015.

In February 2016, the Company entered into multiple foreign currency cash flow hedge contracts to hedge the anticipated cash flows from inventory purchases denominated in the Mexican Peso with a total notional amount of approximately \$6.4 million and with settlement dates through December 2016. All of the contracts are non-designated contracts and therefore, any changes in fair value will be recorded to earnings in the Company's consolidated statement of operations.

Other Fair Value Measurements and Disclosures

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The categorization of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The levels of the fair value hierarchy are described below:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs utilize inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, allowing for situations where there is little, if any, market activity for the asset or liability.

On a recurring basis, the Company measures certain financial assets and financial liabilities at fair value, including its restricted investments, foreign currency hedge contracts, and contingent consideration. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company bases fair value upon quoted market prices, where available. Where quoted market prices or other observable inputs are not available, the Company applies valuation techniques to estimate fair value.

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Measured on a Recurring Basis

Financial assets and financial liabilities measured at fair value on a recurring basis consist of the following at December 31, 2015:

	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<i>(Dollar amounts in millions)</i>				
Assets:				
Restricted Investments	\$ 1.2	\$ —	\$ —	\$ 1.2
Liabilities				
Contingent Consideration	\$ —	\$ —	\$ 0.2	\$ 0.2

Restricted Investments (Level 1) -- The fair value of investments is based on quoted market prices. The fair value of investments was not materially different from their cost basis at December 31, 2015 or 2014.

Contingent Consideration (Level 3) -- Contingent consideration liabilities are measured at fair value using projected revenue, discount rates, probabilities of payment and projected payment dates. This Level 3 fair value measurement was determined using an option pricing model. The real option approach methodology applies option pricing theory to a “real” stream, such as revenue. Utilization of this methodology allows running of a high number of simulations and therefore, the Company believes that this valuation methodology was most appropriate. Increases or decreases in the fair value of the Company's contingent consideration liability are principally driven by changes in the amount or probability weighting of revenue estimates. Projected revenue is based on the Company's most recent internal operational budgets. From the date of acquisition through December 31, 2015, the Company recorded a fair value adjustment totaling approximately \$3.5 million, which was recorded as a benefit to selling, general and administrative expense, net, as a result of the reduction of the projected revenues. See Note 2, "Acquisitions and Dispositions" for further discussion.

Pension Plan Assets -- Pension plan assets are measured at fair value based on Level 1 inputs. See Note 13, "Pension, Profit Sharing and Other Post-Retirement Benefits", for further information surrounding the Company's valuation of pension plan assets.

Measured on a Non-Recurring Basis

The Company remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets are comprised of long-lived assets, including property and equipment, intangible assets and goodwill.

During 2015, the Company committed to a plan to sell one of its RCH segment's warehouse properties and engaged a third party broker to assist the Company in actively marketing this asset and identifying a buyer. During the first quarter of 2015, based on the Company's evaluation of the assets held for sale criteria under ASC 360-10, the Company concluded all of the criteria were met and that the asset that is expected to be sold should be classified as held for sale. The assets held for sale relate to separately identifiable building and land owned by a subsidiary within the RCH reporting unit. The Company determined that the fair value, which was determined based on Level 3 inputs based on estimated selling price, less cost to sell, was approximately \$2.7 million and, as a result, the Company recorded a charge to SG&A of approximately \$0.4 million during the first quarter of 2015 to reduce the carrying value to fair value less cost to sell. During the fourth quarter of 2015, the Company entered into an agreement with a third party for the sale of this asset resulting in a total sales price, less costs to sell, of approximately \$2.3 million. As a result, the Company recorded the change in estimated fair value less cost to sell totaling approximately \$0.4 million as an impairment charge in the fourth quarter of 2015. The sale was completed in January 2016.

During the second quarter of 2015 and 2014, the Company recorded impairment charges related to long-lived assets and goodwill associated with the AVC segments. The non-recurring fair value measurements of these assets were primarily determined using

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unobservable inputs and as such, these fair value measurements are classified within Level 3 of the fair value hierarchy. See Note 3, "Goodwill and Other Intangible Assets" for further discussion surrounding these charges.

Additionally, in 2013, the Company recorded a non-cash long-lived asset impairment charge of approximately \$4.3 million related to the write-down of property and equipment in connection with the exit in the first quarter of 2014 of a product line within the AQH segment.

Financial Instruments Not Recorded at Fair Value

The carrying value and fair values of financial instruments not recorded at fair value in the consolidated balance sheets at December 31, 2015 and 2014 were as follows:

Cash and Trade Receivables -- Cash and trade receivables are carried at their cost which approximates fair value (Level 1) because of their short-term nature.

Long-Term Debt -- At December 31, 2015, the fair value of the Company's long-term indebtedness was approximately \$25.7 million higher than the amount on the Company's accompanying consolidated balance sheet, before approximately \$3.4 million of unamortized debt premium and approximately \$4.9 million of unamortized debt discount. At December 31, 2014, the fair value of the Company's long-term indebtedness was approximately \$68.6 million higher than the amount on the Company's consolidated balance sheet, before approximately \$4.8 million of unamortized debt premium and approximately \$1.9 million of unamortized debt discount. The Company determined the fair market value of its 8.5% Notes using available market quotes from published sources (Level 1). For the Company's remaining outstanding indebtedness (including outstanding borrowings under the ABL Facility and the Term Loan Facility), the Company assumed that the carrying value of such indebtedness approximated the fair value based upon the variable interest rates associated with certain of these debt obligations and the Company's estimated credit risk.

15. CASH FLOWS

The impact of changes in foreign currency exchange rates on cash was approximately \$3.8 million, \$0.9 million, and \$1.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, and has been included in "Long-term assets, liabilities and other, net" within operating activities in the accompanying consolidated statements of cash flows.

Interest paid was approximately \$96.2 million, \$103.6 million and \$97.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Significant non-cash financing and investing activities excluded from the accompanying consolidated statements of cash flows include capitalized leases of approximately \$0.5 million and \$0.1 million for 2014 and 2013, respectively.

During 2013, the Company recorded a non-cash addition to buildings within property and equipment and other long-term liabilities of approximately \$33.6 million related to construction of new facilities in Mexico (see Note 6, "Commitments and Contingencies").

Net cash paid for acquisitions and dispositions for the periods presented was as follows:

	For the year ended December 31,		
	2015	2014	2013
	<i>(Dollar amounts in millions)</i>		
Fair value of assets acquired	\$ 70.7	\$ 307.5	\$ 201.9
Fair value of liabilities assumed or created	(7.0)	(32.6)	(52.1)
Net assets of businesses acquired	63.7	274.9	149.8
Less cash acquired	(0.6)	(7.0)	(3.4)
Net cash paid for business acquired	63.1	267.9	146.4
Cash transferred in connection with business disposition	1.6	—	—
	<u>\$ 64.7</u>	<u>\$ 267.9</u>	<u>\$ 146.4</u>

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16. SUMMARIZED QUARTERLY FINANCIAL DATA (UNAUDITED)

The Company operates on a calendar year and for its interim periods operates on a 4-4-5 fiscal calendar, where each fiscal quarter is comprised of two 4-week periods and one 5-week period, with each week ending on a Saturday. The Company's fiscal year always begins on January 1 and ends on December 31. As a result, the Company's first and fourth quarters may have more or less days included than a traditional 4-4-5 fiscal calendar, which consists of 91 days.

The table that follows summarizes unaudited quarterly financial data for 2015:

	For the Quarter Ended			
	March 28	June 27	September 26	December 31
	<i>(Dollar amounts in millions, except per share data)</i>			
2015				
Net sales	\$ 572.7	\$ 703.9	\$ 618.5	\$ 631.0
Cost of revenues	405.9	505.8	442.5	443.7
Selling, general and administrative expense, net	143.3	146.1	141.1	140.5
Impairment of long-lived assets and goodwill	—	1.2	—	0.4
Depreciation expense	12.4	12.1	13.3	12.6
Amortization expense ⁽¹⁾	16.3	16.1	17.1	18.3
Operating earnings	7.7	34.7	14.9	28.1
Net (loss) earnings	(13.9)	(2.3)	(14.4)	3.9
Net (loss) earnings per share:				
Basic (loss) earnings per share	\$ (0.87)	\$ (0.14)	\$ (0.90)	\$ 0.24
Diluted (loss) earnings per share	\$ (0.87)	\$ (0.14)	\$ (0.90)	\$ 0.24

(1) Includes increases to cost of revenues for inventory acquired in business combinations.

The table that follows summarizes unaudited quarterly financial data for 2014:

	For the Quarter Ended			
	March 29	June 28	September 27	December 31
	<i>(Dollar amounts in millions, except per share data)</i>			
2014				
Net sales	\$ 547.8	\$ 718.6	\$ 642.9	\$ 636.8
Cost of revenues	393.5	509.0	452.9	449.6
Selling, general and administrative expense, net	128.2	146.1	141.7	141.8
Impairment of long-lived assets and goodwill	—	80.4	—	—
Depreciation expense	9.9	10.5	11.2	11.6
Amortization expense ⁽¹⁾	13.6	16.7	15.2	16.7
Operating earnings (loss)	12.5	(32.1)	33.4	29.1
Net (loss) earnings	(8.6)	(46.2)	4.6	4.6
Net (loss) earnings per share:				
Basic (loss) earnings per share	\$ (0.55)	\$ (2.97)	\$ 0.29	\$ 0.29
Diluted (loss) earnings per share	\$ (0.55)	\$ (2.97)	\$ 0.29	\$ 0.29

(1) Includes increases to cost of revenues for inventory acquired in business combinations.

See the notes to these financial statements regarding certain other quarterly transactions which impact the operating results in the above tables, including financing activities, new accounting pronouncements, income taxes, acquisitions, sales volume, material costs, rationalization and relocation of manufacturing operations, material procurement strategies and other items.

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17. GUARANTOR FINANCIAL STATEMENTS

The Company's 8.5% Notes are guaranteed by each of the Company's current and future domestic subsidiaries that guarantee the Company's obligations under its senior secured credit facilities (the "Guarantors"). The Guarantors are wholly-owned, either directly or indirectly, by the Company and jointly and severally guarantee the Company's obligations under the 8.5% Notes. All guarantees are full and unconditional. None of the Company's foreign subsidiaries guarantee the 8.5% Notes.

Consolidating balance sheets related to Nortek, the Guarantors and non-Guarantor subsidiaries as of December 31, 2015 and 2014 and the related consolidating statements of operations and comprehensive income (loss), and cash flows for the years ended December 31, 2015, 2014 and 2013 are reflected below in order to comply with the reporting requirements for guarantor subsidiaries.

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the year ended December 31, 2015

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>				
Net Sales	\$ —	\$ 2,153.3	\$ 806.5	\$ (433.7)	\$ 2,526.1
Costs and Expenses:					
Cost of revenues	—	1,549.7	681.8	(433.6)	1,797.9
Selling, general and administrative expense, net	52.7	428.7	89.6	—	571.0
Loss on sale of assets	—	—	2.9	—	2.9
Impairment of long-lived assets and goodwill	—	0.6	1.0	—	1.6
Amortization of intangible assets	—	61.7	6.4	(0.8)	67.3
	<u>52.7</u>	<u>2,040.7</u>	<u>781.7</u>	<u>(434.4)</u>	<u>2,440.7</u>
Operating (loss) earnings	(52.7)	112.6	24.8	0.7	85.4
Net interest expense	(96.6)	(4.0)	(0.1)	—	(100.7)
Loss from debt retirement	(14.8)	—	—	—	(14.8)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	(164.1)	108.6	24.7	0.7	(30.1)
Charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	134.0	(61.1)	(0.2)	(72.7)	—
(Loss) earnings before (benefit) provision for income taxes	(30.1)	47.5	24.5	(72.0)	(30.1)
(Benefit) provision for income taxes	(3.4)	19.1	13.8	(32.9)	(3.4)
Net (loss) earnings	<u>\$ (26.7)</u>	<u>\$ 28.4</u>	<u>\$ 10.7</u>	<u>\$ (39.1)</u>	<u>\$ (26.7)</u>
Other comprehensive (loss) income, net of tax:					
Currency translation adjustment	(10.5)	—	(9.4)	9.4	(10.5)
Total pension liability adjustments, net of tax	3.7	0.2	1.8	(2.0)	3.7
Other comprehensive (loss) income	<u>(6.8)</u>	<u>0.2</u>	<u>(7.6)</u>	<u>7.4</u>	<u>(6.8)</u>
Comprehensive (loss) income	<u>\$ (33.5)</u>	<u>\$ 28.6</u>	<u>\$ 3.1</u>	<u>\$ (31.7)</u>	<u>\$ (33.5)</u>

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the year ended December 31, 2014

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>				
Net Sales	\$ —	\$ 2,155.1	\$ 854.3	\$ (463.3)	\$ 2,546.1
Costs and Expenses:					
Cost of revenues	—	1,536.3	730.6	(461.9)	1,805.0
Selling, general and administrative expense, net	63.5	394.5	99.8	—	557.8
Impairment of long-lived assets and goodwill	—	70.1	10.3	—	80.4
Amortization of intangible assets	—	55.2	5.6	(0.8)	60.0
	<u>63.5</u>	<u>2,056.1</u>	<u>846.3</u>	<u>(462.7)</u>	<u>2,503.2</u>
Operating (loss) earnings	(63.5)	99.0	8.0	(0.6)	42.9
Net interest expense	(102.6)	(2.9)	(0.1)	—	(105.6)
Loss from debt retirement	(2.3)	—	—	—	(2.3)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	(168.4)	96.1	7.9	(0.6)	(65.0)
Charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	103.4	(73.1)	0.2	(30.5)	—
(Loss) earnings before (benefit) provision for income taxes	(65.0)	23.0	8.1	(31.1)	(65.0)
(Benefit) provision for income taxes	(19.4)	6.3	10.1	(16.4)	(19.4)
Net (loss) earnings	<u>\$ (45.6)</u>	<u>\$ 16.7</u>	<u>\$ (2.0)</u>	<u>\$ (14.7)</u>	<u>\$ (45.6)</u>
Other comprehensive (loss) income, net of tax:					
Currency translation adjustment	(7.9)	—	(6.7)	6.7	(7.9)
Total pension liability adjustments, net of tax	(11.5)	(2.6)	(3.5)	6.1	(11.5)
Other comprehensive (loss) income	(19.4)	(2.6)	(10.2)	12.8	(19.4)
Comprehensive (loss) income	<u>\$ (65.0)</u>	<u>\$ 14.1</u>	<u>\$ (12.2)</u>	<u>\$ (1.9)</u>	<u>\$ (65.0)</u>

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Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income
For the year ended December 31, 2013

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>				
Net Sales	\$ —	\$ 1,938.4	\$ 729.4	\$ (379.9)	\$ 2,287.9
Costs and Expenses:					
Cost of revenues	—	1,385.8	619.0	(380.2)	1,624.6
Selling, general and administrative expense, net	60.3	369.3	90.2	—	519.8
Impairment of long-lived assets and goodwill	—	4.3	—	—	4.3
Amortization of intangible assets	—	49.2	2.9	(0.8)	51.3
	<u>60.3</u>	<u>1,808.6</u>	<u>712.1</u>	<u>(381.0)</u>	<u>2,200.0</u>
Operating (loss) earnings	(60.3)	129.8	17.3	1.1	87.9
Net interest expense	(96.2)	(3.0)	(0.1)	—	(99.3)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	(156.5)	126.8	17.2	1.1	(11.4)
Charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	145.1	(67.8)	1.2	(78.5)	—
(Loss) earnings before (benefit) provision for income taxes	(11.4)	59.0	18.4	(77.4)	(11.4)
(Benefit) provision for income taxes	(3.1)	23.9	6.6	(30.5)	(3.1)
Net (loss) earnings	<u>\$ (8.3)</u>	<u>\$ 35.1</u>	<u>\$ 11.8</u>	<u>\$ (46.9)</u>	<u>\$ (8.3)</u>
Other comprehensive (loss) income, net of tax:					
Currency translation adjustment	(3.0)	—	(3.0)	3.0	(3.0)
Total pension liability adjustments, net of tax	9.0	3.0	(1.0)	(2.0)	9.0
Other comprehensive income (loss)	<u>6.0</u>	<u>3.0</u>	<u>(4.0)</u>	<u>1.0</u>	<u>6.0</u>
Comprehensive (loss) income	<u>\$ (2.3)</u>	<u>\$ 38.1</u>	<u>\$ 7.8</u>	<u>\$ (45.9)</u>	<u>\$ (2.3)</u>

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Condensed Consolidating Balance Sheet as of December 31, 2015

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Nortek Consolidated
<i>(Dollar amounts in millions)</i>					
ASSETS:					
Current Assets:					
Unrestricted cash and cash equivalents	\$ 0.7	\$ 1.1	\$ 22.8	\$ —	\$ 24.6
Restricted cash	0.1	0.2	—	—	0.3
Accounts receivable, less allowances	—	273.8	66.2	—	340.0
Intercompany receivables	4.9	—	89.8	(94.7)	—
Inventories, net	—	294.9	80.7	(7.5)	368.1
Prepaid expenses	2.7	11.2	5.4	—	19.3
Other current assets	0.1	8.7	10.3	—	19.1
Total current assets	<u>8.5</u>	<u>589.9</u>	<u>275.2</u>	<u>(102.2)</u>	<u>771.4</u>
Property and Equipment, at Cost:					
Total property and equipment, net	<u>17.0</u>	<u>157.1</u>	<u>54.9</u>	<u>—</u>	<u>229.0</u>
Other Long-term Assets:					
Investment in subsidiaries and long-term receivable from (to) subsidiaries	1,409.9	82.7	—	(1,492.6)	—
Goodwill	—	464.5	41.0	—	505.5
Intangible assets, less accumulated amortization	—	568.2	49.7	(8.8)	609.1
Deferred tax asset	38.0	—	0.6	(38.6)	—
Other assets	15.2	12.3	0.8	0.6	28.9
Total other long-term assets	<u>1,463.1</u>	<u>1,127.7</u>	<u>92.1</u>	<u>(1,539.4)</u>	<u>1,143.5</u>
Total Assets	<u>\$ 1,488.6</u>	<u>\$ 1,874.7</u>	<u>\$ 422.2</u>	<u>\$ (1,641.6)</u>	<u>\$ 2,143.9</u>
LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT):					
Current Liabilities:					
Short term bank obligations	\$ —	\$ —	\$ 0.5	\$ —	\$ 0.5
Current maturities of long-term debt	6.1	0.8	—	—	6.9
Accounts payable	2.4	142.2	124.6	—	269.2
Accrued expenses, taxes, and deferred revenue	38.1	131.8	44.6	—	214.5
Intercompany payables	—	94.7	—	(94.7)	—
Total current liabilities	<u>46.6</u>	<u>369.5</u>	<u>169.7</u>	<u>(94.7)</u>	<u>491.1</u>
Other Liabilities:					
Deferred income taxes	—	105.4	12.3	(40.8)	76.9
Other long-term liabilities	49.9	107.8	20.8	—	178.5
Long-term intercompany payables	—	—	110.0	(110.0)	—
	<u>49.9</u>	<u>213.2</u>	<u>143.1</u>	<u>(150.8)</u>	<u>255.4</u>
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities	<u>1,379.8</u>	<u>3.5</u>	<u>1.8</u>	<u>—</u>	<u>1,385.1</u>
Stockholders' investment (deficit)	12.3	1,288.5	107.6	(1,396.1)	12.3
Total Liabilities and Stockholders' Investment (Deficit)	<u>\$ 1,488.6</u>	<u>\$ 1,874.7</u>	<u>\$ 422.2</u>	<u>\$ (1,641.6)</u>	<u>\$ 2,143.9</u>

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Condensed Consolidating Balance Sheet as of December 31, 2014

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Nortek Consolidated
<i>(Dollar amounts in millions)</i>					
ASSETS:					
Current Assets:					
Unrestricted cash and cash equivalents	\$ 17.5	\$ 5.1	\$ 35.8	\$ —	\$ 58.4
Restricted cash	0.2	0.4	—	—	0.6
Accounts receivable, less allowances	—	257.3	67.6	—	324.9
Intercompany receivables	3.2	—	80.8	(84.0)	—
Inventories, net	—	303.5	78.2	(7.4)	374.3
Prepaid expenses	2.5	10.5	5.4	—	18.4
Other current assets	—	7.2	10.9	—	18.1
Deferred tax assets	4.1	25.1	—	(1.1)	28.1
Total current assets	<u>27.5</u>	<u>609.1</u>	<u>278.7</u>	<u>(92.5)</u>	<u>822.8</u>
Property and Equipment, at Cost:					
Total property and equipment, net	<u>11.9</u>	<u>163.0</u>	<u>63.1</u>	<u>—</u>	<u>238.0</u>
Other Long-term Assets:					
Investment in subsidiaries and long-term receivable from (to) subsidiaries	1,376.2	415.9	—	(1,792.1)	—
Goodwill	—	434.4	39.9	—	474.3
Intangible assets, less accumulated amortization	—	596.5	55.7	(9.6)	642.6
Deferred tax asset	13.9	—	—	(13.9)	—
Other assets	19.1	11.4	0.9	—	31.4
Total other long-term assets	<u>1,409.2</u>	<u>1,458.2</u>	<u>96.5</u>	<u>(1,815.6)</u>	<u>1,148.3</u>
Total Assets	<u>\$ 1,448.6</u>	<u>\$ 2,230.3</u>	<u>\$ 438.3</u>	<u>\$ (1,908.1)</u>	<u>\$ 2,209.1</u>
LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT):					
Current Liabilities:					
Short term bank obligations	\$ —	\$ —	\$ 0.6	\$ —	\$ 0.6
Current maturities of long-term debt	3.8	2.5	—	—	6.3
Accounts payable	2.4	157.0	129.4	—	288.8
Accrued expenses, taxes, and deferred revenue	32.7	145.7	44.0	—	222.4
Current deferred taxes	—	—	1.1	(1.1)	—
Intercompany payables	—	84.0	—	(84.0)	—
Total current liabilities	<u>38.9</u>	<u>389.2</u>	<u>175.1</u>	<u>(85.1)</u>	<u>518.1</u>
Other Liabilities:					
Deferred income taxes	—	126.4	13.8	(16.7)	123.5
Other long-term liabilities	34.6	125.1	26.2	—	185.9
Long-term intercompany payables	—	—	119.6	(119.6)	—
	<u>34.6</u>	<u>251.5</u>	<u>159.6</u>	<u>(136.3)</u>	<u>309.4</u>
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities	<u>1,332.9</u>	<u>6.5</u>	<u>—</u>	<u>—</u>	<u>1,339.4</u>
Stockholders' investment (deficit)	<u>42.2</u>	<u>1,583.1</u>	<u>103.6</u>	<u>(1,686.7)</u>	<u>42.2</u>
Total Liabilities and Stockholders' Investment (Deficit)	<u>\$ 1,448.6</u>	<u>\$ 2,230.3</u>	<u>\$ 438.3</u>	<u>\$ (1,908.1)</u>	<u>\$ 2,209.1</u>

NORTEK, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2015

Condensed Consolidating Cash Flow Statement
For the year ended December 31, 2015

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Nortek Consolidated
	<i>(Dollar amounts in millions)</i>			
Cash Flows from operating activities:				
Net cash (used in) provided by operating activities	\$ (188.1)	\$ 225.0	\$ 12.2	\$ 49.1
Cash Flows from investing activities:				
Capital expenditures	(2.6)	(32.3)	(9.9)	(44.8)
Net cash paid for businesses acquired and dispositions	—	(63.1)	(1.6)	(64.7)
Net cash paid for acquisition of assets	(5.0)	(1.0)	—	(6.0)
Proceeds from the sale of property and equipment	—	1.0	0.1	1.1
Change in restricted cash and marketable securities	0.1	0.2	—	0.3
Intercompany capital contributions	(0.9)	—	0.9	—
Other, net	—	(0.2)	(0.3)	(0.5)
Net cash used in investing activities	(8.4)	(95.4)	(10.8)	(114.6)
Cash Flows from financing activities:				
Proceeds from ABL and other borrowings	450.0	—	4.5	454.5
Payment of ABL and other borrowings	(411.1)	(3.8)	(2.7)	(417.6)
Redemption of the 10% Senior Notes due 2018, including redemption premium	(262.5)	—	—	(262.5)
Net proceeds from borrowings under the senior secured term loan facility due 2020	261.8	—	—	261.8
Fees paid in connection with debt facilities	(2.7)	—	—	(2.7)
Net use from equity transactions	(2.2)	—	—	(2.2)
Excess tax benefit on share-based awards	0.4	—	—	0.4
Long-term intercompany advances and loans	146.0	(129.8)	(16.2)	—
Other, net	—	—	—	—
Net cash provided by (used in) financing activities	179.7	(133.6)	(14.4)	31.7
Net change in unrestricted cash and cash equivalents	(16.8)	(4.0)	(13.0)	(33.8)
Unrestricted cash and cash equivalents at the beginning of the period	17.5	5.1	35.8	58.4
Unrestricted cash and cash equivalents at the end of the period	\$ 0.7	\$ 1.1	\$ 22.8	\$ 24.6

NORTEK, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2015

Condensed Consolidating Cash Flow Statement
For the year ended December 31, 2014

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Nortek Consolidated
	<i>(Dollar amounts in millions)</i>			
Cash Flows from operating activities:				
Net cash (used in) provided by operating activities	\$ (200.1)	\$ 217.8	\$ 19.9	\$ 37.6
Cash Flows from investing activities:				
Capital expenditures	(7.6)	(25.3)	(6.0)	(38.9)
Net cash paid for businesses acquired	(185.2)	(12.3)	(70.4)	(267.9)
Proceeds from the sale of property and equipment	—	1.1	0.6	1.7
Change in restricted cash and marketable securities	0.1	0.2	0.1	0.4
Intercompany capital contributions	(0.4)	—	0.4	—
Intercompany dividends	—	15.5	(15.5)	—
Other, net	0.3	(1.5)	(0.2)	(1.4)
Net cash used in investing activities	(192.8)	(22.3)	(91.0)	(306.1)
Cash Flows from financing activities:				
Proceeds from ABL and other borrowings	250.0	—	3.2	253.2
Payment of ABL and other borrowings	(252.1)	(2.8)	(3.2)	(258.1)
Net proceeds from borrowings under the senior secured term loan facility due 2020	349.1	—	—	349.1
Redemption of the senior secured term loan facility due 2017	(93.0)	—	—	(93.0)
Fees paid in connection with debt facilities	(6.3)	—	—	(6.3)
Net use from equity transactions	(2.1)	—	—	(2.1)
Excess tax benefit on share-based awards	3.2	—	—	3.2
Long-term intercompany advances and loans	138.4	(207.6)	69.2	—
Other, net	—	—	—	—
Net cash provided by (used in) financing activities	387.2	(210.4)	69.2	246.0
Net change in unrestricted cash and cash equivalents	(5.7)	(14.9)	(1.9)	(22.5)
Unrestricted cash and cash equivalents at the beginning of the period	23.2	20.0	37.7	80.9
Unrestricted cash and cash equivalents at the end of the period	\$ 17.5	\$ 5.1	\$ 35.8	\$ 58.4

NORTEK, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
December 31, 2015

Condensed Consolidating Cash Flow Statement
For the year ended December 31, 2013

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>			
Cash Flows from operating activities:				
Net cash (used in) provided by operating activities	\$ (151.7)	\$ 276.2	\$ 10.7	\$ 135.2
Cash Flows from investing activities:				
Capital expenditures	(5.1)	(27.9)	(10.8)	(43.8)
Net cash paid for businesses acquired	(145.5)	—	(0.9)	(146.4)
Proceeds from the sale of property and equipment	—	0.1	0.1	0.2
(Increase) decrease in restricted cash and marketable securities	(2.7)	0.3	—	(2.4)
Intercompany capital contributions	(2.2)	2.2	—	—
Other, net	(0.1)	(0.7)	(0.1)	(0.9)
Net cash used in investing activities	<u>(155.6)</u>	<u>(26.0)</u>	<u>(11.7)</u>	<u>(193.3)</u>
Cash Flows from financing activities:				
Proceeds from ABL and other borrowings	150.0	—	3.1	153.1
Payment of ABL and other borrowings	(150.3)	(2.6)	(3.1)	(156.0)
Net use from equity transactions	(2.5)	—	—	(2.5)
Long-term intercompany advances and loans	238.7	(240.7)	2.0	—
Other, net	(0.3)	—	—	(0.3)
Net cash provided by (used in) financing activities	<u>235.6</u>	<u>(243.3)</u>	<u>2.0</u>	<u>(5.7)</u>
Net change in unrestricted cash and cash equivalents	<u>(71.7)</u>	<u>6.9</u>	<u>1.0</u>	<u>(63.8)</u>
Unrestricted cash and cash equivalents at the beginning of the period	94.9	13.1	36.7	144.7
Unrestricted cash and cash equivalents at the end of the period	<u>\$ 23.2</u>	<u>\$ 20.0</u>	<u>\$ 37.7</u>	<u>\$ 80.9</u>

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Nortek, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Nortek, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' investment for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the index at item 15(b). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nortek, Inc. and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Nortek, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
February 29, 2016

NORTEK, INC. AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Classification	Balance at Beginning of Year	Charged to Cost and Expense	Charged to Other Accounts	Deduction from Reserves	Balance at End of Year
<i>(Dollar amounts in millions)</i>					
For the year-ended December 31, 2013					
Allowance for doubtful accounts	\$ 7.2	\$ 0.6	\$ — (a)	\$ (3.6) (b)	\$ 4.2
Deferred tax valuation allowance	42.2	\$ 4.2	\$ (0.2)	\$ —	\$ 46.2
For the year-ended December 31, 2014					
Allowance for doubtful accounts	\$ 4.2	\$ 2.3	\$ (0.3) (a)	\$ (2.5) (b)	\$ 3.7
Deferred tax valuation allowance	\$ 46.2	\$ 7.7	\$ 0.4	\$ —	\$ 54.3
For the year-ended December 31, 2015					
Allowance for doubtful accounts	\$ 3.7	\$ 1.5	\$ 0.2 (a)	\$ (1.8) (b)	\$ 3.6
Deferred tax valuation allowance	\$ 54.3	\$ 3.7	\$ (1.0)	\$ (6.1)	\$ 50.9

(a) Other, including the effect of changes in foreign currency exchange rates.

(b) Amounts written off, net of recoveries.

NORTEK, INC. AND SUBSIDIARIES
December 31, 2015

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
2 .1	Joint Plan of Reorganization of Nortek, Inc. filed with the United States Bankruptcy Court for the District of Delaware on December 4, 2009. (Exhibit 2.1 to Nortek, Inc. Form 10 filed April 15, 2010.)
3 .1	Amended and Restated Certificate of Incorporation of Nortek, Inc. (Exhibit 3.1 to Nortek, Inc. Form 10 filed April 15, 2010.)
3 .2	Amended and Restated By-Laws of Nortek, Inc. (Exhibit 3.2 to Nortek, Inc. Form 10 filed April 15, 2010.)
4 .1	Form of Common Stock Certificate. (Exhibit 4.3 to Nortek, Inc. Form 10 filed April 15, 2010.)
4 .2	Form of Warrant to Purchase Common Stock. (Exhibit 4.4 to Nortek, Inc. Form 10 filed April 15, 2010.)
4 .3	Amended and Restated Warrant Agreement between Nortek, Inc. as Issuer and U.S. Bank National Association as Warrant Agent. (Exhibit 4.1 to Nortek, Inc. Form 10-Q filed August 17, 2010.)
4 .4	Registration Rights Agreement dated November 23, 2010 by and among Nortek, Inc. and Merrill Lynch, Pierce, Fenner Smith Incorporated (Exhibit 4.2 to Nortek, Inc. Form 8-K filed November 24, 2010.)
4 .5	Indenture dated as of April 26, 2011 between Nortek, Inc. and U.S. Bank National Association, as Trustee relating to 8.5% Senior Notes due 2021 (Exhibit 10.2 to Nortek, Inc. Form 8-K filed April 28, 2011).
4 .6	Registration Rights Agreement, dated as of April 26, 2011, by and among Nortek, Inc., the Guarantors party thereto and UBS Securities LLC as the Initial Purchaser. (Exhibit 10.3 to Nortek, Inc. Form 8-K filed April 28, 2011.)
4 .7	Registration Rights Agreement, dated as of October 18, 2012, by and among Nortek, Inc., the Guarantors party thereto and UBS Securities LLC (Exhibit 4.1 to Nortek, Inc. Form 8-K filed October 19, 2012.)
**10 .1	Form of Indemnification Agreement between Nortek, Inc. and certain officers and directors. (Exhibit 10.1 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .2	Employment Agreement of Michael J. Clarke, dated as of December 16, 2011. (Exhibit 10.1 to Nortek, Inc. Form 8-K filed December 21, 2011.)
**10 .3	Amended and Restated Employment Agreement of Almon C. Hall, III, dated as of August 27, 2004. (Exhibit 10.4 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .4	Amendment to Amended and Restated Employment Agreement of Almon C. Hall, III, dated as of December 17, 2009. (Exhibit 10.5 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .5	Amended and Restated Employment Agreement of Kevin W. Donnelly, dated as of August 27, 2004. (Exhibit 10.6 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .6	Amendment to Amended and Restated Employment Agreement of Kevin W. Donnelly, dated as of December 17, 2009. (Exhibit 10.7 to Nortek, Inc. Form 10 filed April 15, 2010.)

NORTEK, INC. AND SUBSIDIARIES
December 31, 2015

<u>Exhibit No.</u>	<u>Description</u>
**10 .7	Severance and General Release Agreement between Linear LLC and Sean Burke dated August 13, 2014. (Exhibit 10.1 to Nortek, Inc. Form 10-Q filed November 3, 2014.)
*/**10 .8	Retention Letter Agreement between David J. LaGrand and Nordyne Inc. dated as of July 9, 2010.
**10 .9	Transition Employment and Separation Agreement between Nortek, Inc. and Almon C. Hall, III. (Exhibit 10.1 to Nortek, Inc. Form 8-K filed May 21, 2015.)
**10 .10	Form of Nonqualified Stock Option Agreement (Exhibit 10.1 to Nortek, Inc. Form 10-Q filed May 5, 2014.)
**10 .11	Form of Restricted Stock Agreement (Performance-Based). (Exhibit 10.1 to Nortek, Inc. Form 10-K filed March 2, 2015.)
**10 .12	Form of Restricted Stock Agreement (Time-Based). (Exhibit 10.3 to Nortek, Inc. Form 10-Q filed May 5, 2014.)
**10 .13	Form of Restricted Stock Agreement for Directors. (Exhibit 10.4 to Nortek, Inc. Form 10-Q filed May 5, 2014.)
**10 .14	Nortek, Inc. Supplemental Executive Retirement Plan B, effective as of January 1, 1998. (Exhibit 10.15 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .15	First Amendment to the Nortek, Inc. Supplemental Executive Retirement Plan B, dated as of May 4, 2000. (Exhibit 10.16 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .16	Second Amendment to the Nortek, Inc. Supplemental Executive Retirement Plan B, dated as of January 4, 2002. (Exhibit 10.17 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .17	Third Amendment to the Nortek, Inc. Supplemental Executive Retirement Plan B, dated as of October 31, 2006. (Exhibit 10.18 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .18	Fourth Amendment to the Nortek, Inc. Supplemental Executive Retirement Plan B, dated as of December 31, 2008. (Exhibit 10.19 to Nortek, Inc. Form 10 filed April 15, 2010.)
**10 .19	Nortek, Inc. 2009 OmniBus Incentive Plan, as Amended and Restated (Appendix A to Nortek, Inc. Proxy Statement filed April 4, 2012.)
10 .20	U.S. Security Agreement, dated December 17, 2009 among Nortek, Inc. as the Specified U.S. Borrower, the Additional Grantors party thereto and Bank of America, N.A. as Administrative Agent. (Exhibit 10.22 to Nortek, Inc. Form 10 filed April 15, 2010.)
10 .21	U.S. Guaranty, dated December 17, 2009, by Nortek, Inc., the other Persons party thereto and the Additional Guarantors as Guarantors. (Exhibit 10.25 to Amendment No. 2 to Nortek, Inc. Form 10 filed September 14, 2011.)
10 .22	Joinder and Amendment Agreement, dated as of March 30, 2010. (Exhibit 10.25 to Nortek, Inc. Form 10 filed April 15, 2010.)
10 .23	Amended and Restated Credit Agreement, dated December 17, 2010 among Nortek, Inc. as the Specified U.S. Borrower, Ventrol Air Handling Systems Inc. as the Canadian Borrower, the other Borrowers named therein, Bank of America, N.A., as Administrative Agent, U.S. Swing Line Lender and U.S. L/C Issuer, Bank of America, N.A. (acting through its Canada Branch), as Canadian Swing Line Lender and Canadian L/C Issuer, the other Lenders Party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Capital Finance, LLC as Joint Lead Arrangers and Joint Bookrunners and Bank of America, N.A. and General Electric Capital Corporation, as Collateral Agents, and General Electric Capital Corporation and Wells Fargo Capital Finance, LLC as Co-Syndication Agents. (Exhibit 10.1 to Nortek, Inc. Form 8-K filed December 20, 2010.)
10 .24	Affirmation of Guaranties and Security Agreement and Consent to Amendment, dated December 17, 2010, by the Guarantors party thereto in favor of Bank of America, N.A. as Administrative Agent. (Exhibit 10.26 to Amendment No. 2 to Nortek, Inc. Form 10 filed September 14, 2011.)
10 .25	Amendment No. 1 dated April 26, 2011, to the Amended and Restated Credit Agreement, dated December 17, 2010 among Nortek, Inc. as the Specified U.S. Borrower, Ventrol Air Handling Systems Inc. as the Canadian Borrower, the other Borrowers named therein, Bank of America, N.A., as Administrative Agent, U.S. Swing Line Lender and U.S. L/C Issuer, Bank of America, N.A. (acting through its Canada Branch), as Canadian Swing Line Lender and Canadian L/C Issuer, the other Lenders Party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Capital Finance, LLC as Joint Lead Arrangers and Joint Bookrunners and Bank of America, N.A. and General Electric Capital Corporation, as Collateral Agents, and General Electric Capital Corporation and Wells Fargo Capital Finance, LLC as Co-Syndication Agents. (Exhibit 10.5 to Nortek, Inc. Form 8-K filed April 28, 2011.)

NORTEK, INC. AND SUBSIDIARIES
December 31, 2015

<u>Exhibit No.</u>	<u>Description</u>
10 .26	Amended and Restated Credit Agreement dated as of April 30, 2014 among Nortek, Inc., as Borrower, Wells Fargo, National Association, as Administrative Agent and Collateral Agent, the Other Financial Institutions Party Thereto, as Lenders, UBS Securities LLC and Royal Bank of Canada, as Co-Syndication Agents, and Wells Fargo Bank, National Association, as Documentation Agent, Wells Fargo Securities LLC, RBC Capital Markets and UBS Securities LLC, as Joint Lead Arrangers and Joint Bookrunners. (Exhibit 10.1 to Nortek, Inc. Form 8-K filed May 1, 2014.)
10 .27	Second Amendment, dated June 13, 2012, to the Amended and Restated Credit Agreement, dated December 17, 2010 among Nortek, Inc. as the Specified U.S. Borrower, Ventrol Air Handling Systems Inc. as the Canadian Borrower, the other Borrowers named therein, Bank of America, N.A., as Administrative Agent, U.S. Swing Line Lender and U.S. L/C Issuer, Bank of America, N.A. (acting through its Canada Branch), as Canadian Swing Line Lender and Canadian L/C Issuer, the other Lenders Party thereto, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Capital Finance, LLC as Joint Lead Arrangers, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Bookrunner and Bank of America, N.A. as Collateral Agent and Wells Fargo Capital Finance, LLC, as Syndication Agency and UBS Securities LLC and US Bank, N.A. as Co-Documentation Agents (Exhibit 10.1 to Nortek, Inc. Form 8-K/A filed June 15, 2012.)
10 .28	Security Agreement, dated April 26, 2011, among Nortek, Inc. and the Additional Grantors party thereto and UBS AG, Stamford Branch, as Administrative Agent and Collateral Agent. (Exhibit 10.29 to Amendment No. 2 to Nortek, Inc. Form 10 filed September 14, 2011.)
10 .29	Guaranty Agreement, dated April 26, 2011, by Nortek, Inc., the other Persons party thereto and the Additional Guarantors as Guarantors. (Exhibit 10.30 to Amendment No. 2 to Nortek, Inc. Form 10 filed September 14, 2011.)
10 .30	Lien Subordination and Intercreditor Agreement, dated April 26, 2011, among Bank of America, N.A. as Administrative Agent under the ABL Credit Agreement, UBS AG, Stamford Branch, as Term Loan Collateral Agent, Nortek, Inc., and the subsidiaries of Nortek, Inc. party thereto. (Exhibit 10.31 to Amendment No. 2 to Nortek, Inc. Form 10 filed September 14, 2011.)
10 .31	Investor Agreement, dated as of April 4, 2012, by and between Nortek, Inc. and (i) Ares Corporate Opportunities Fund, II, L.P., (ii) ACOF Management II, L.P., (iii) ACOF Operating Manager II, L.P., (iv) Ares Management, Inc., (v) Ares Corporate Opportunities Fund III, L.P., (vi) ACOF Management III, L.P., (vii) ACOF Operating Holdings Manager III, LLC, V(viii) Ares Management LLC, (iv)x) Ares Management Holdings LLC, (x) Ares Holdings LLC and (xi) Ares xi) Ares Partners Management Company LLC((Exhibit 10.1 to Nortek, Inc. Form 8-K filed April 4, 2012.)
10 .32	Incremental Amendment, dated as of April 2, 2015, by and among Nortek, Inc., the Guarantors, the Borrowers, the incremental term lenders, and Wells Fargo Bank, National Association, as Administrative Agent. (Exhibit 10.1 to Nortek, Inc. Form 8-K filed April 3, 2015.)
*21 .1	List of subsidiaries.
*23 .1	Consent of Ernst & Young LLP
*31	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 101 .INS	XBRL Instance Document
* 101 .SCH	XBRL Taxonomy Extension Schema Document
* 101 .CAL	XBRL Taxonomy Extension Calculation Linkbase Document
* 101 .DEF	XBRL Taxonomy Extension Definition Linkbase Document
* 101 .LAB	XBRL Taxonomy Extension Label Linkbase Document
* 101 .PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	Filed herewith
**	Management / Employment Contract or Compensatory Plan or Arrangement