

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2008

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: **333-126389**

NTK Holdings, Inc.

(exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-1934298

(IRS Employer
Identification Number)

50 Kennedy Plaza

Providence, Rhode Island

(Address of principal executive offices)

02903-2360

(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 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 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). (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ 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 ☒

There is no established public trading market for any of the common stock of the Company. The aggregate market value of voting stock held by non-affiliates is zero.

The number of shares of Common Stock outstanding as of May 9, 2008 was 3,000.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NTK HOLDINGS, INC. AND SUBSIDIARIES UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET *(Dollar amounts in millions)*

	March 29, <u>2008</u>	December 31, <u>2007</u>
Assets		
Current Assets:		
Unrestricted cash and cash equivalents	\$ 53.0	\$ 53.4
Restricted cash	1.0	1.0
Accounts receivable, less allowances of \$12.0 and \$12.2	327.7	320.0
Inventories:		
Raw materials	105.8	91.6
Work in process	35.7	29.9
Finished goods	196.9	187.1
	<u>338.4</u>	<u>308.6</u>
Prepaid expenses	13.9	11.7
Other current assets	22.2	19.8
Prepaid income taxes	36.2	28.9
Total current assets	<u>792.4</u>	<u>743.4</u>
Property and Equipment, at Cost:		
Land	10.8	10.4
Buildings and improvements	113.6	110.1
Machinery and equipment	223.8	217.1
	<u>348.2</u>	<u>337.6</u>
Less accumulated depreciation	110.1	99.7
Total property and equipment, net	<u>238.1</u>	<u>237.9</u>
Other Assets:		
Goodwill	1,522.8	1,528.9
Intangible assets, less accumulated amortization of \$87.7 and \$80.7	157.0	156.6
Deferred debt expense	29.8	31.4
Restricted investments and marketable securities	2.3	2.3
Other assets	11.7	10.3
	<u>1,723.6</u>	<u>1,729.5</u>
Total Assets	<u>\$ 2,754.1</u>	<u>\$ 2,710.8</u>

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

NTK HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
(Continued)
(Dollar amounts in millions, except share data)

	March 29, 2008	December 31, 2007
Liabilities and Stockholder's Investment		
Current Liabilities:		
Notes payable and other short-term obligations	\$ 77.8	\$ 64.0
Current maturities of long-term debt	32.7	32.4
Accounts payable	239.1	192.7
Accrued expenses and taxes, net	232.3	248.6
Total current liabilities	<u>581.9</u>	<u>537.7</u>
Other Liabilities:		
Deferred income taxes	35.3	37.0
Other	127.8	125.6
	<u>163.1</u>	<u>162.6</u>
Notes, Mortgage Notes and Obligations		
Payable, Less Current Maturities	<u>1,933.7</u>	<u>1,921.5</u>
Commitments and Contingencies (see Note G)		
Stockholder's Investment:		
Common stock, \$0.01 par value, authorized 3,000 shares; 3,000 issued and outstanding at March 29, 2008 and December 31, 2007	---	---
Additional paid-in capital	21.6	21.6
Retained earnings	15.7	29.7
Accumulated other comprehensive income	38.1	37.7
Total stockholder's investment	<u>75.4</u>	<u>89.0</u>
Total Liabilities and Stockholder's Investment	<u>\$ 2,754.1</u>	<u>\$ 2,710.8</u>

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

NTK HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the first quarter ended	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Dollar amounts in millions)</i>	
Net Sales	\$ <u>540.2</u>	\$ <u>552.5</u>
Costs and Expenses:		
Cost of products sold	391.6	384.6
Selling, general and administrative expense, net (see Note D)	118.5	117.1
Amortization of intangible assets	<u>6.7</u>	<u>6.0</u>
	<u>516.8</u>	<u>507.7</u>
Operating earnings	23.4	44.8
Interest expense	(43.0)	(42.3)
Investment income	<u>0.2</u>	<u>0.4</u>
(Loss) earnings before (benefit) provision for income taxes	(19.4)	2.9
(Benefit) provision for income taxes	<u>(5.4)</u>	<u>1.7</u>
Net (loss) earnings	<u>\$ (14.0)</u>	<u>\$ 1.2</u>

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

NTK HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the first quarter ended
March 29, 2008 **March 31, 2007**
(Dollar amounts in millions)

Cash Flows from operating activities:

Net (loss) earnings	\$ (14.0)	\$ 1.2
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Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:

Depreciation and amortization expense	17.4	14.6
Non-cash interest expense, net	17.0	14.5
Non-cash stock-based compensation expense	---	0.1
Deferred federal income tax (benefit) provision	(8.9)	1.3

Changes in certain assets and liabilities, net of effects from acquisitions and dispositions:

Accounts receivable, net	(4.6)	(7.0)
Inventories	(28.8)	(30.1)
Prepays and other current assets	(3.2)	(1.1)
Accounts payable	43.4	34.1
Accrued expenses and taxes	(19.7)	(41.7)
Long-term assets, liabilities and other, net	1.9	0.8
Total adjustments to net (loss) earnings	14.5	(14.5)
Net cash provided by (used in) operating activities	0.5	(13.3)

Cash Flows from investing activities:

Capital expenditures	(7.3)	(6.8)
Net cash paid for businesses acquired	---	(16.8)
Proceeds from the sale of property and equipment	0.1	---
Change in restricted cash and marketable securities	---	1.3
Other, net	(1.2)	(0.3)
Net cash used in investing activities	(8.4)	(22.6)

Cash Flows from financing activities:

Increase in borrowings	33.2	28.5
Payment of borrowings	(25.8)	(6.8)
Other, net	0.1	---
Net cash provided by financing activities	7.5	21.7
Net change in unrestricted cash and cash equivalents	(0.4)	(14.2)
Unrestricted cash and cash equivalents at the beginning of the period	53.4	57.4
Unrestricted cash and cash equivalents at the end of the period	\$ 53.0	\$ 43.2

Supplemental disclosure of cash flow information:

Interest paid	\$ 35.7	\$ 45.1
Income taxes paid, net	\$ 3.5	\$ 2.8

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

NTK HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S INVESTMENT
FOR THE FIRST QUARTER ENDED MARCH 31, 2007
(Dollar amounts in millions)

	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Comprehensive Income</u>
Balance, December 31, 2006	\$ 21.3	\$ 39.9	\$ 11.6	\$ ---
Net earnings	---	1.2	---	1.2
Other comprehensive income:				
Currency translation adjustment	---	---	1.4	1.4
Comprehensive income				<u>\$ 2.6</u>
Adoption of FIN 48 (see Note F)	---	(3.2)	---	
Stock-based compensation	0.1	---	---	
Balance, March 31, 2007	<u>\$ 21.4</u>	<u>\$ 37.9</u>	<u>\$ 13.0</u>	

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

NTK HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S INVESTMENT
FOR THE FIRST QUARTER ENDED MARCH 29, 2008
(Dollar amounts in millions)

	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Comprehensive Income (Loss)</u>
Balance, December 31, 2007	\$ 21.6	\$ 29.7	\$ 37.7	\$ ---
Net loss	---	(14.0)	---	(14.0)
Other comprehensive income:				
Currency translation adjustment	---	---	0.4	0.4
Comprehensive loss				<u>\$ (13.6)</u>
Balance, March 29, 2008	<u>\$ 21.6</u>	<u>\$ 15.7</u>	<u>\$ 38.1</u>	

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

NTK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 2008 AND MARCH 31, 2007

- (A) The unaudited condensed consolidated financial statements presented herein (the "Unaudited Financial Statements") reflect the financial position, results of operations and cash flows of NTK Holdings, Inc. (the "Company" or "NTK Holdings") and all of its wholly-owned subsidiaries. The Unaudited Financial Statements include the accounts of NTK Holdings, as appropriate, and all of its wholly-owned subsidiaries, including Nortek, Inc. ("Nortek"), after elimination of intercompany accounts and transactions, without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the interim periods presented. Although certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted, the Company believes that the disclosures included are adequate to make the information presented not misleading. Operating results from the first quarter ended March 29, 2008 are not necessarily indicative of the results that may be expected for other interim periods or for the year ending December 31, 2008. Certain amounts in the prior year's Unaudited Financial Statements have been reclassified to conform to the current year presentation. It is suggested that these Unaudited Financial Statements be read in conjunction with the consolidated financial statements and the notes included in the Company's latest annual report on Form 10-K and its latest Current Reports on Form 8-K as filed with the Securities and Exchange Commission ("SEC").

Stock-Based Compensation of Employees, Officers and Directors

The Company follows the modified-prospective transition method of accounting for stock-based compensation in accordance with SFAS No. 123R. Under the modified-prospective transition method, the Company is required to recognize compensation cost for share-based payments to employees based on their grant-date fair value. Measurement and attribution of compensation cost for awards that were granted prior to, but not vested as of the date SFAS No. 123R was adopted, are based on the same estimate of the grant-date fair value and the same attribution method used previously under SFAS No. 123.

At March 29, 2008, certain employees and consultants held approximately 23,291 C-1 units and approximately 43,811 C-2 units, which represent equity interests in THL-Nortek Investors, LLC ("Investors LLC"), the parent of NTK Holdings, that function similar to stock awards. The C-1 units vest pro rata on a quarterly basis over a three-year period and approximately 22,802 and 22,613 were vested at March 29, 2008 and December 31, 2007, respectively. The total fair value of the C-1 units is approximately \$1.1 million and approximately \$0.1 million remains to be amortized at March 29, 2008. The C-2 units only vest in the event that certain performance-based criteria, as defined, are met. At March 29, 2008 and December 31, 2007, there was approximately \$1.6 million of unamortized stock-based employee compensation with respect to the C-2 units, which will be recognized in the event that it becomes probable that the C-2 units or any portion thereof will vest. The C-1 and C-2 units were valued using the Black-Scholes option pricing model to determine the freely-traded call option value based upon information from comparable public companies, which was then adjusted to reflect the discount period, the minority interest factor and the lack of marketability factor to arrive at the final valuations.

The Company recorded stock-based compensation charges in selling, general and administrative expense, net of approximately \$0.1 million for the first quarter ended March 31, 2007 in accordance with SFAS No. 123R.

NTK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 2008 AND MARCH 31, 2007
(Continued)

Goodwill and Other Long-Live Assets

The following table presents a summary of the activity in goodwill for the first quarter ended March 29, 2008:

(Amounts in millions)

Balance as of December 31, 2007	\$ 1,528.9
Purchase accounting adjustments	(5.7)
Impact of foreign currency translation and other	(0.4)
Balance as of March 29, 2008	<u>\$ 1,522.8</u>

At March 29, 2008, the Company had an approximate carrying value of Goodwill as follows:

(Amounts in millions)

Segment:	
Residential Ventilation Products	\$ 794.5
Home Technology Products	413.7
Air Conditioning and Heating Products *	314.6
	<u>\$ 1,522.8</u>

* Primarily relates to the Residential HVAC reporting unit.

The Company has classified as goodwill the cost in excess of fair value of the net assets (including tax attributes) of companies acquired in purchase transactions (see Note C). Approximately \$47.3 million of goodwill associated with certain companies acquired during the year ended December 31, 2007 will be deductible for income tax purposes. Purchase accounting adjustments relate principally to final revisions resulting from the completion of fair value adjustments and adjustments to deferred income taxes that impact goodwill.

The Company accounts for acquired goodwill and intangible assets in accordance with Statement of Financial Standards ("SFAS") No. 141, "Business Combinations" ("SFAS No. 141"), SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") which involves judgment with respect to the determination of the purchase price and the valuation of the acquired assets and liabilities in order to determine the final amount of goodwill. The Company believes that the estimates that it has used to record its acquisitions are reasonable and in accordance with SFAS No. 141 (see Note C).

Under SFAS No. 142, goodwill determined to have an indefinite useful life is not amortized. Instead these assets are 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, among others, 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. During 2007, the Company performed a second test as of December 31, 2007 due to the continued weakness in the housing market which, together with a difficult mortgage industry, resulted in the continued decline in new housing activity and consumer spending on industry-wide home remodeling and repair expenditures. This second test in 2007 did not result in an indication of impairment.

The Company primarily utilizes a discounted cash flow approach in order to value the Company's reporting units required to be tested for impairment by SFAS No. 142, which requires that the Company forecast future cash flows of the reporting units and discount the cash flow stream based upon a weighted average cost of capital that is derived from comparable companies within similar industries. The reporting units evaluated for goodwill impairment by the Company have been determined to be the same as the Company's operating segments in accordance with the criteria in SFAS No. 142 for determining reporting units (see Note E). The discounted cash flow calculations also include a terminal value calculation that is based upon an expected

NTK HOLDINGS, INC. AND SUBSIDIARIES
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(Continued)

long-term growth rate for the applicable reporting unit. The Company believes that its procedures for estimating gross future cash flows, including the terminal valuation, are reasonable and consistent with market conditions at the time of estimation.

Goodwill is considered to be potentially impaired when the net book value of a reporting unit exceeds its estimated fair value as determined in accordance with the Company's valuation procedures. The Company believes that its assumptions used to determine the fair value for the respective reporting units are reasonable. If different assumptions were to be used, particularly with respect to estimating future cash flows, there could be the potential that an impairment charge could result. Actual operating results and the related cash flows of the reporting units could differ from the estimated operating results and related cash flows. The impact of reducing the Company's fair value estimates by 10% would have no impact on the Company's goodwill assessment for any of its reporting units, with the exception of the Company's residential heating, ventilating and air conditioning reporting unit ("Residential HVAC"). Assuming a 10% reduction in the Company's fair value estimates, the carrying value of Residential HVAC may exceed its fair value, which could require the Company to perform additional testing under SFAS No. 142 to determine if there was a goodwill impairment for Residential HVAC.

In accordance with SFAS No. 144, the Company evaluates the realizability of non indefinite-lived and non-goodwill long-lived assets, which primarily consist of property and equipment and intangible assets (the "SFAS No. 144 Long-Lived Assets"), on an annual basis, or more frequently when events or business conditions warrant it, based on expectations of non-discounted future cash flows for each subsidiary having a material amount of SFAS No. 144 Long-Lived Assets.

The Company performs the evaluation as of the first day of its fiscal fourth quarter and more frequently if impairment indicators are identified, for the impairment of long-lived assets, other than goodwill, based on expectations of non-discounted future cash flows compared to the carrying value of the subsidiary in accordance with SFAS No. 144. If the sum of the expected non-discounted future cash flows is less than the carrying amount of the SFAS No. 144 Long-Lived Assets, the Company would recognize an impairment loss. The Company's cash flow estimates are based upon historical cash flows, as well as future projected cash flows received from subsidiary management in connection with the annual Company wide planning process, and include a terminal valuation for the applicable subsidiary based upon a multiple of earnings before interest expense, net, depreciation and amortization expense and income taxes ("EBITDA"). The Company estimates the EBITDA multiple by reviewing comparable company information and other industry data. The Company believes that its procedures for estimating gross future cash flows, including the terminal valuation, are reasonable and consistent with market conditions at the time of estimation.

The Company's businesses are experiencing a difficult market environment, due primarily to weak residential new construction, remodeling and residential air conditioning markets and increased commodity costs, and expect these trends to continue in 2008. The Company has evaluated the carrying value of reporting unit goodwill and long-lived assets and has determined that despite the current difficult market environment, no impairment existed at the time these financial statements were completed.

Fair Value

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 was effective for the Company beginning January 1, 2008, including interim periods within the year ending December 31, 2008. SFAS No. 157 replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. SFAS No. 157 applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements.

The adoption of SFAS No. 157 for the Company's financial assets and liabilities in the first quarter of 2008 did not have a material impact on the Company's financial position or results of operations as the Company. As of March 29, 2008, the Company did not have any significant financial assets or liabilities carried at fair value.

NTK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 29, 2008 AND MARCH 31, 2007
(Continued)

In February 2008, the FASB issued FASB Staff Position ("FSP") SFAS No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions" ("FSP No. 157-1"), and FSP SFAS No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2"). FSP No. 157-1 removes leasing from the scope of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). FSP No. 157-2 delays the effective date of SFAS No. 157 from 2008 to 2009 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The Company's non-financial assets and liabilities that meet the deferral criteria set forth in FSP No 157-2 include, among others, goodwill, intangible assets, property and equipment, net and other long-term investments. The Company does not expect that the adoption of SFAS No. 157 for these non-financial assets and liabilities will have a material impact on its financial position or results of operations.

The Company also adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS No. 159") on January 1, 2008. SFAS No. 159 permits entities to choose to measure eligible assets and liabilities at fair value with changes in value recognized in earnings. Fair value treatment may be elected either upon initial recognition of an eligible asset or liability or, for an existing asset or liability, if an event triggers a new basis of accounting. The Company did not elect to re-measure any of its existing financial assets or liabilities under the provisions of SFAS No. 159, therefore, the adoption of SFAS No. 159 did not have a material impact on the Company's financial position or results of operations.

New Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 requires additional disclosures about an entity's derivative and hedging activities in order to improve the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company expects to adopt the provisions of SFAS No. 161 on January 1, 2009 and is currently evaluating the impact of adopting SFAS No. 161 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 requires that noncontrolling (or minority) interests in subsidiaries be reported in the equity section of the company's balance sheet, rather than in a mezzanine section of the balance sheet between liabilities and equity. SFAS No. 160 also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company's income statement. SFAS No. 160 also establishes guidelines for accounting for changes in ownership percentages and for deconsolidation. SFAS No. 160 is effective for financial statements for fiscal years beginning on or after December 1, 2008 and interim periods within those years. The Company expects to adopt SFAS No. 160 effective January 1, 2009 and does not believe that the adoption will have a material impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) replaces SFAS No. 141, "Business Combinations", but retains the requirement that the purchase method of accounting for acquisitions be used for all business combinations. SFAS No. 141(R) expands on the disclosures previously required by SFAS No. 141, better defines the acquirer and the acquisition date in a business combination, and establishes principles for recognizing and measuring the assets acquired (including goodwill), the liabilities assumed and any noncontrolling interests in the acquired business. SFAS No. 141(R) also requires an acquirer to record an adjustment to income tax expense for changes in valuation allowances or uncertain tax positions related to acquired businesses. SFAS No. 141(R) is effective for all business combinations with an acquisition date in the first annual period following December 15, 2008; early adoption is not permitted. The Company will adopt this statement in fiscal year 2009. Based upon current accounting principles, approximately \$14.1 million of the Company's unrecognized tax benefits as of March

NTK HOLDINGS, INC. AND SUBSIDIARIES
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(Continued)

29, 2008, would reduce goodwill if recognized. This amount is expected to be approximately \$10.0 million at January 1, 2009, the date of adoption. Under the provisions of SFAS No. 141(R), if these amounts are recognized after December 31, 2008, they would be recorded through the Company's tax provision and reduce the Company's effective tax rate, rather than goodwill. The Company is currently evaluating the impact of adopting SFAS No. 141(R) on its consolidated financial statements.

- (B) In March 2008, Moody's downgraded the debt ratings for Nortek and its Parent Company, NTK Holdings, from "B2" to "B3" and issued a negative outlook. Moody's rating downgrade reflects the Company's high leverage, reduced financial flexibility and the anticipated pressure of the difficult new home construction market and home values on the Company's 2008 financial performance. The negative ratings outlook reflects Moody's concern that the market for the Company's products will remain under significant pressure so long as new housing starts do not rebound and that the repair and remodeling market could contract meaningfully in 2008 and possibly in 2009. Additionally, Moody's was concerned whether the Company's cost cutting initiatives would be successful enough so as to offset pressure on the Company's sales.

In April 2008, Standard & Poor's lowered its ratings for Nortek and its Parent Company, NTK Holdings, from "B" to "B-" and issued a negative outlook. Standard & Poor's rating downgrade reflects the Company's weaker overall financial profile resulting from the challenging operating conditions in the Company's new residential construction and remodeling markets. The negative outlook reflects Standard & Poor's concerns about the US economy, difficult credit markets and cost inflation, and the anticipation that the Company's credit metrics will remain challenged for at least the next several quarters.

As part of the Nortek senior secured credit facility, Nortek has a \$200.0 million revolving credit facility that matures in August 2010 and includes both a letter of credit sub-facility and swing line loan sub-facility. At March 29, 2008, Nortek had approximately \$45.0 million outstanding (of which approximately \$10.0 million was borrowed under Nortek's swing line loan sub-facility and was subsequently repaid in early April 2008) and approximately \$112.0 million of available borrowing capacity under the U.S. revolving portion of its senior secured credit facility, with approximately \$33.0 million in outstanding letters of credit. Borrowings under the revolving portion of the senior secured credit facility are used for general corporate purposes, including borrowings to fund working capital requirements. Under the Canadian revolving portion of its senior secured credit facility, Nortek had no outstanding borrowings and approximately \$10.0 million of available borrowing capacity. Letters of credit have been issued under Nortek's revolving credit facility as additional security for (1) approximately \$17.2 million relating to certain of the Company's insurance programs, (2) approximately \$3.4 million relating to leases outstanding for certain of the Company's manufacturing facilities and (3) approximately \$12.4 million relating to certain of the subsidiaries' purchases and other requirements. Letters of credit reduce borrowing availability under Nortek's revolving credit facility on a dollar for dollar basis.

On May 10, 2006, the Company borrowed an aggregate principal amount of \$205.0 million under a senior unsecured loan facility. The senior unsecured loan facility initially had a term of one year; however, on May 10, 2007, the Company exercised an option to extend the maturity date of its senior unsecured loan facility to March 1, 2014 and paid a loan extension fee of approximately \$4.5 million. As a result, the Company recorded approximately \$4.5 million as debt discount which is being amortized as non-cash interest expense using the interest method through March 1, 2014.

The Company's senior unsecured loan facility bears interest at LIBOR plus a spread, which spread increases over time, subject to a cap on the overall interest rate of 11% per annum. At March 29, 2008, the senior unsecured loan facility had an actual interest rate of approximately 9.2%. The Company is accruing an effective interest rate of approximately 10.9%, reflecting the estimated average interest rate over the remaining term of the senior unsecured loan facility. NTK Holdings has the option to pay interest in cash ("Cash Option") or by adding interest to the principal amount of the loans under the senior unsecured loan facility ("PIK Option"). If the Company exercises the PIK Option with respect to any interest period, an amount equal to the unpaid interest accrued will be added to the principal amount of the senior unsecured loan facility and such accrued interest will be deemed to have been paid. Following an increase in the principal amount of the senior unsecured loan facility as a result of the payment through the PIK Option, the senior unsecured loan facility will bear interest on such increased principal amount. The Company must elect the form of interest

NTK HOLDINGS, INC. AND SUBSIDIARIES
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payment for each interest period. Since the initial borrowing on May 10, 2006, the Company has elected the PIK option to increase the principal amount of the senior unsecured loan facility for the interest accrued during the applicable interest periods. As a result of exercising this PIK Option, the Company recorded approximately \$5.7 million and \$4.7 million of accrued interest for the first quarter ended March 29, 2008 and March 31, 2007, respectively, as additional indebtedness relating to the senior unsecured loan facility. At March 29, 2008 and December 31, 2007, the actual outstanding principal balance on the senior unsecured loan facility was approximately \$243.7 million and \$238.0 million, respectively. The amount recorded as of March 29, 2008 and December 31, 2007, net of unamortized debt discount of approximately \$4.0 million and \$4.1 million, respectively, is approximately \$239.7 million and \$233.9 million, respectively. The senior unsecured loan facility is not guaranteed by any of the NTK Holdings' subsidiaries and is not secured by any assets of NTK Holdings or any of its subsidiaries.

Nortek's senior secured credit facility contains two financial maintenance covenants, which become more restrictive over time, and the Company cannot assure that these covenants will always be met particularly given the further deterioration of the new residential construction and repair and remodeling industries, plus the instability in the overall credit markets. These two covenants require that Nortek maintain at the end of each quarter, calculated based on the last twelve months, a Leverage Ratio and an Interest Coverage Ratio, each as defined. The Leverage Ratio must not exceed a defined ratio amount and the Interest Coverage Ratio must not be less than a defined ratio amount. The Leverage Ratio is calculated by dividing Nortek's total indebtedness, net of cash, (as defined) by EBITDA (as defined) and the Interest Coverage Ratio is calculated by dividing EBITDA (as defined) by interest expense, net (as defined).

At March 29, 2008, Nortek was required to maintain a Leverage Ratio not greater than 5.85:1 and an Interest Coverage Ratio of not less than 2.20:1. The Leverage Ratio requirement of 5.85:1 at March 29, 2008 tightens to 5.60:1 at the end of the second quarter of 2008 and further tightens to 5.25:1 at December 31, 2008, while the Interest Coverage Ratio requirement of 2.20:1 at March 29, 2008 remains the same through December 31, 2008, further tightening to 2.30:1 during the first quarter of 2009. Should Nortek not satisfy either of these covenants, Nortek's senior secured credit facility allows a cure, whereby a subsequent cash equity investment equal to the EBITDA shortfall, will be treated as EBITDA for purposes of the compliance calculations in the current and future periods. The senior secured credit facility allows for such a cure to occur twice within a consecutive twelve-month period.

In the first quarter of 2008, the Company's EBITDA for such quarter (as calculated in accordance with the senior secured credit facility) was below the level necessary to be in compliance with the Interest Coverage Ratio and the Leverage Ratio covenants as of the end of such quarter by approximately \$4.2 million. Nortek utilized the equity cure right under its senior secured credit facility to avoid any default otherwise arising out of such shortfall by receiving additional equity investments by certain investors of approximately \$4.2 million in the second quarter of 2008. Nortek's Leverage Ratio and Interest Coverage Ratio, after using the equity cure right as noted above, was 5.80:1 and 2.20:1, respectively, at March 29, 2008.

The Company expects that Nortek may also encounter events of non-compliance with the Interest Coverage Ratio and the Leverage Ratio covenants as of the end of the second quarter of 2008 and anticipates that Nortek may seek to use the equity cure right again to remedy any such non-compliance. Subsequent to the second quarter of 2008, based upon the Company's current forecast regarding Nortek's operating results for the balance of 2008 and the first quarter of 2009, the Company does not anticipate further events of non-compliance with the Interest Coverage Ratio and Leverage Ratio covenants as of the end of the third and fourth quarters of 2008 and the first quarter of 2009. To the extent Nortek experiences events of non-compliance with such covenants, which are not resolved through the use of the equity cure feature or other alternatives, Nortek would need to seek waivers or amendments from the lenders under its senior secured credit facility or refinance such facility. Should an event of non-compliance occur, Nortek will not be permitted to borrow under its credit facility until such time that a cure happens. If these events of non-compliance were to occur, and were not cured, an event of default would exist under Nortek's senior secured credit facility and would allow the lenders to accelerate the payment of indebtedness outstanding. In addition, an event of default under the credit facility would result in a cross default under substantially all of the Company's other senior and senior subordinated indebtedness. In light of the instability and uncertainty that currently exists

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within the financial and credit markets and the tightening of credit standards, Nortek may not be able to obtain any such waivers or amendments or any such refinancing on acceptable terms. In addition, any such waivers, amendments or refinancing may involve terms which would have a further adverse effect on the future cash flows of the Company. Based upon the application of equity cures, other potential equity investments and Nortek's forecast of its financial results for 2008 and the first quarter of 2009, the Company has determined that it is probable that Nortek will be in compliance with the terms of its senior secured credit facility through the first quarter of 2009 and as a result, the Company has classified Nortek's long-term indebtedness as a long-term liability in its consolidated balance sheet at March 29, 2008 and December 31, 2007, respectively.

A breach of the covenants under the indentures that govern NTK Holdings' 10 3/4% senior discount notes, and Nortek's 8 1/2% senior subordinated notes or under the agreements that govern NTK Holdings' senior unsecured loan facility and Nortek's senior secured credit facility could result in an event of default under the applicable indebtedness. 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 Nortek's senior secured credit facility would permit the lenders to terminate all commitments to extend further credit under that facility. Furthermore, if Nortek was unable to repay the amounts due and payable under its senior secured credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event the Company's lenders or noteholders accelerate the repayment of their borrowings, the Company cannot assure that the Company and its subsidiaries would have sufficient assets to repay such indebtedness. The Company's future financing arrangements will likely contain similar or more restrictive covenants. As a result of these restrictions, the Company may be:

- limited in how the Company conducts its business,
- unable to raise additional debt or equity financing to operate during general economic or business downturns, or
- unable to compete effectively or to take advantage of new business opportunities.

Such restrictions if imposed, would affect the Company's ability to grow in accordance with its plans.

At December 31, 2007, the Company's Best subsidiary was not in compliance with a maintenance covenant with respect to two loan agreements with two banks with aggregate borrowings outstanding of approximately \$9.4 million. The Company's Best subsidiary obtained waivers from the two banks, which indicated that the Company's Best subsidiary was not required to comply with the maintenance covenant as of December 31, 2007. The next measurement date for the maintenance covenant is for the year ended December 31, 2008 and the Company believes that it is probable that its Best subsidiary will be in compliance with the maintenance covenant when their assessment of the required calculation is completed in the first quarter of 2009. As a result, the Company has classified the outstanding borrowings under such agreements as a long-term liability in its consolidated balance sheet at March 29, 2008 and December 31, 2007, respectively.

The indentures and other agreements governing the Company and its subsidiaries' indebtedness (including the credit agreement for the senior secured credit facility) contain certain restrictive financial and operating covenants, including covenants that restrict the ability of the Company and its subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets and take certain other corporate actions.

At March 29, 2008, the Company had approximately \$59.8 million available for the payment of cash dividends, stock purchases or other restricted payments ("Restricted Payments") under the terms of the indenture governing the Company's 10 3/4% Senior Discount Notes' and the agreement governing the Company's senior unsecured loan facility. Restricted Payments to NTK Holdings and Nortek Holdings from Nortek are limited by the terms of Nortek's most restrictive loan agreement, Nortek's senior secured credit facility. The amount available for such payments under Nortek's senior secured credit facility was approximately \$170.6 million at March 29, 2008.

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(C) On September 18, 2007, the Company acquired all the capital stock of Stilpol SP. Zo.O. ("Stilpol") and certain assets and liabilities of Metaltecnica S.r.l. ("Metaltecnica") for approximately \$7.9 million in cash and the assumption of indebtedness of approximately \$4.1 million through its kitchen range hood subsidiaries, based in Italy and Poland ("Best Subsidiaries"). The Company's Best subsidiaries borrowed the cash portion of the purchase price from banks in Italy. These acquisitions supply various fabricated material components and sub-assemblies used by the Company's Best subsidiaries in the manufacture of kitchen range hoods.

On August 1, 2007, the Company, through its wholly-owned subsidiary Jensen, Inc., acquired certain assets of Solar of Michigan, Inc. ("Triangle") for approximately \$1.7 million of cash. Triangle is located in Coopersville, MI and manufactures, markets and distributes bath cabinets and related products.

On July 27, 2007, the Company acquired all of the ownership units of HomeLogic LLC ("HomeLogic") for approximately \$5.1 million (utilizing approximately \$3.1 million of cash and issuing unsecured 6% subordinated notes totaling approximately \$2.0 million due July 2011) plus contingent consideration, which may be payable in future years. HomeLogic is located in Marblehead, MA and designs and sells software and hardware that facilitates the control of third party residential subsystems such as home theater, whole-house audio, climate control, lighting, security and irrigation.

On July 23, 2007, the Company, through its wholly-owned subsidiary, Linear LLC ("Linear"), acquired the assets and certain liabilities of Aegis Mechtronics LLC ("Aegis") for approximately \$2.8 million (utilizing approximately \$2.2 million of cash and issuing unsecured 6% subordinated notes totaling approximately \$0.6 million due July 2011). Aegis is located in Winston-Salem, NC and manufactures and sells equipment, such as camera housings, into the close-circuit television portion of the global security market.

On June 25, 2007, the Company, through Linear, acquired International Electronics, Inc. ("IEI") through a cash tender offer to purchase all of the outstanding shares of common stock of IEI at a price of \$6.65 per share. The total purchase price was approximately \$13.8 million. IEI is located in Canton, MA and designs and sells security and access control components and systems for use in residential and light commercial applications.

On April 10, 2007, the Company, through Linear, acquired the assets and certain liabilities of c.p. All Star Corporation ("All Star") for approximately \$2.8 million (utilizing approximately \$2.3 million of cash and issuing unsecured 6% subordinated notes totaling \$0.5 million due April 2009). All Star is located in Downingtown, PA and is a leading manufacturer and distributor of residential, commercial and industrial gate operators, garage door openers, radio controls and accessory products for the garage door and perimeter security industry.

On March 26, 2007, the Company, through its wholly-owned subsidiary, Advanced Bridging Technologies, Inc. ("ABT"), acquired certain assets of Personal and Recreational Products, Inc. ("Par Safe") for future contingent consideration of approximately \$4.6 million that was earned in 2007 and was paid in April 2008. Par Safe designs and sells home safes and solar LED security lawn signs.

On March 2, 2007, the Company, through Linear, acquired the stock of LiteTouch, Inc. ("LiteTouch") for approximately \$10.5 million (utilizing approximately \$8.0 million of cash and issuing unsecured 6% subordinated notes totaling \$2.5 million due March 2009) plus contingent consideration, which may be payable in future years. LiteTouch is located in Salt Lake City, UT and designs, manufactures and sells automated lighting controls for a variety of uses including residential, commercial, new construction and retrofit applications.

On June 15, 2007, the Company, through its wholly-owned subsidiary, Mammoth China Ltd. ("Mammoth China"), increased its ownership interests in Mammoth (Zhejiang) EG Air Conditioning Ltd. ("MEG") and Shanghai Mammoth Air Conditioning Co., Ltd. ("MSH") to seventy-five percent. Prior to June 15, 2007 and subsequent to January 25, 2006, Mammoth China had a sixty-percent interest in MEG and MSH.

Acquisitions contributed approximately \$11.2 million, \$(1.2) million loss and \$0.6 million to net sales, operating earnings and depreciation and amortization expense, respectively, for the first quarter ended March 29, 2008. With the exception of Stilpol, Metaltecnica and Triangle, which are included in the Residential Ventilation Products segment, and MEG and MSH, which are included in the Air Conditioning and Heating Products segment, all acquisitions are included in the Home Technology Products segment in the Company's segment reporting (see Note E).

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Contingent consideration of approximately \$32.7 million related to the acquisitions of Par Safe, ABT and Magenta Research, Ltd., which was accrued for at March 29, 2008 and December 31, 2007, respectively, was paid in April 2008. The remaining estimated total maximum potential amount of contingent consideration that may be paid in the future for all completed acquisitions is approximately \$62.0 million.

Acquisitions are accounted for as purchases and accordingly have been included in the Company's consolidated results of operations since their acquisition date. For recent acquisitions, the Company has made preliminary estimates of the fair value of the assets and liabilities of the acquired companies, including intangible assets and property and equipment, as of the date of acquisition, utilizing information available at the time that the Company's Unaudited Financial Statements were prepared and these estimates are subject to refinement until all pertinent information has been obtained. The Company is in the process of appraising the fair value of intangible assets and property and equipment and finalizing the integration plans for certain of the acquired companies, which are expected to be completed during 2008.

Pro forma results related to these acquisitions have not been presented, as the effect is not significant to the Company's consolidated operating results.

- (D) During the first quarter ended March 29, 2008 and March 31, 2007, the Company's results of operations include the following expense items recorded in selling, general and administrative expense, net in the accompanying unaudited condensed consolidated statement of operations:

	<u>For the first quarter ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Amounts in millions)</i>	
Charges related to the closure of the Company's NuTone, Inc. Cincinnati, OH facility (see Note H)	\$ ---	\$ 0.6
Legal and other professional fees and expenses incurred in connection with matters related to certain subsidiaries based in Italy and Poland	---	1.0
Fees and expenses incurred in the HTP segment in connection with a dispute with one of its suppliers	0.2	---
Reserve for amounts due from customers in the HVAC segment	---	1.8
Foreign exchange losses related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries	0.1	0.3
	<u>\$ 0.3</u>	<u>\$ 3.7</u>

The Company has a management agreement with an affiliate of Thomas H. Lee Partners, L.P. providing for certain financial and strategic advisory and consultancy services. Nortek expensed approximately \$0.5 million and \$0.4 million for the first quarter ended March 29, 2008 and March 31, 2007, respectively, related to this management agreement in the accompanying Unaudited Condensed Consolidated Statement of Operations.

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- (E) The Company is a leading diversified manufacturer of innovative, branded residential and commercial products, which is organized within three reporting segments: the Residential Ventilation Products ("RVP") segment, the Home Technology Products ("HTP") segment and the Air Conditioning and Heating Products ("HVAC") segment. The HVAC segment combines the results of the Company's residential and commercial heating, ventilating and air conditioning businesses. In the tables below, Unallocated includes corporate related items, intersegment eliminations and certain income and expense items not allocated to reportable segments.

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

Unaudited net sales, operating earnings and pre-tax earnings for the Company's reporting segments for the first quarter ended March 29, 2008 and March 31, 2007 were as follows:

	For the first quarter ended	
	March 29, 2008	March 31, 2007
	<i>(Dollar amounts in millions)</i>	
Net sales:		
Residential ventilation products	\$ 188.2	\$ 208.7
Home technology products	124.1	123.2
Air conditioning and heating products	<u>227.9</u>	<u>220.6</u>
Consolidated net sales	<u>\$ 540.2</u>	<u>\$ 552.5</u>
Operating earnings:		
Residential ventilation products (1)	\$ 15.9	\$ 25.2
Home technology products (2)	10.3	16.5
Air conditioning and heating products (3)	<u>4.7</u>	<u>9.8</u>
Subtotal	30.9	51.5
Unallocated:		
Stock-based compensation charges	---	(0.1)
Foreign exchange gain on transactions, including intercompany debt	0.1	0.1
Unallocated, net	<u>(7.6)</u>	<u>(6.7)</u>
Consolidated operating earnings	23.4	44.8
Interest expense	(43.0)	(42.3)
Investment income	<u>0.2</u>	<u>0.4</u>
(Loss) earnings before (benefit) provision for income taxes	<u>\$ (19.4)</u>	<u>\$ 2.9</u>

- (1) The operating results of the RVP segment for the first quarter ended March 29, 2008 include net foreign exchange losses of approximately \$0.5 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

The operating results of the RVP segment for the first quarter ended March 31, 2007 include an approximate \$0.6 million charge related to the closure of the Company's NuTone, Inc. Cincinnati, Ohio facility, legal and other professional fees and expenses incurred in connection with matters related to certain subsidiaries based in Italy and Poland of approximately \$1.0 million and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

- (2) The operating results of the HTP segment for the first quarter ended March 29, 2008 include approximately \$0.2 million of fees and expenses incurred in connection with a dispute with a supplier.

- (3) The operating results of the HVAC segment for the first quarter ended March 29, 2008 include net foreign exchange gains of approximately \$0.3 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

The operating results of the HVAC segment for the first quarter ended March 31, 2007 include a charge of approximately \$1.8 million related to reserves for amounts due from customers and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

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Unaudited depreciation expense, amortization expense and capital expenditures for the Company's reporting segments for the first quarter ended March 29, 2008 and March 31, 2007 were as follows:

	For the first quarter ended	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Dollar amounts in millions)</i>	
Depreciation Expense:		
Residential ventilation products	\$ 4.2	\$ 3.0
Home technology products	1.6	1.3
Air conditioning and heating products	4.7	4.1
Other	0.2	0.2
Consolidated depreciation expense	<u>\$ 10.7</u>	<u>\$ 8.6</u>
Amortization expense:		
Residential ventilation products	\$ 1.9	\$ 1.3
Home technology products	3.3	2.7
Air conditioning and heating products	1.4	1.9
Other	0.1	0.1
Consolidated amortization expense	<u>\$ 6.7</u>	<u>\$ 6.0</u>
Capital Expenditures:		
Residential ventilation products	\$ 4.1	\$ 2.4
Home technology products	0.8	1.2
Air conditioning and heating products	2.4	3.2
Consolidated capital expenditures	<u>\$ 7.3</u>	<u>\$ 6.8</u>

- (F) The Company provided income taxes on an interim basis based upon the actual effective tax rate through March 29, 2008. The following reconciles the federal statutory income tax rate to the actual effective tax rate of approximately 27.8% and 58.6% for the first quarter ended March 29, 2008 and March 31, 2007:

	For the first quarter ended	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
Income tax at the federal statutory rate	35.0%	35.0%
Net change from federal statutory rate:		
Interest related to uncertain tax positions, net of federal income tax effect	(2.9)	17.2
State income tax provision, net of federal income tax effect	(2.3)	3.1
Tax effect resulting from foreign activities	(3.2)	2.3
Non-deductible expenses	(1.3)	0.9
Other, net	2.5	0.1
Income tax at actual effective rate	<u>27.8%</u>	<u>58.6%</u>

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The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of the adoption of this standard, the Company recorded a charge to retained earnings of approximately \$3.2 million and also increased goodwill related to pre-acquisition tax uncertainties by approximately \$3.8 million.

As of January 1, 2008, the Company has provided a liability of approximately \$36.3 million for unrecognized tax benefits related to various federal, foreign and state tax income tax matters. The amount of unrecognized tax benefits at March 29, 2008 was approximately \$38.1 million. The amount of unrecognized tax benefits that impact the effective tax rate, if recognized, is approximately \$9.6 million. The difference between the total amount of unrecognized tax benefits and the amount that would impact the effective rate consists of items that would adjust deferred tax assets and liabilities of approximately \$7.8 million, items that, if recognized prior to January 1, 2009 (see Note A for SFAS No. 141(R) discussion), would result in adjustments to goodwill of approximately \$14.1 million and the federal benefit of state tax items of approximately \$6.6 million.

As of March 29, 2008, the Company has approximately \$4.1 million in unrecognized benefits relating to various state income tax issues, for which the statute of limitation is expected to expire late in 2008. Of this amount, approximately \$3.1 million will reduce goodwill if recognized.

The Company is currently under audit by the Internal Revenue Service for the tax periods from January 1, 2004 to August 27, 2004 and from August 28, 2004 to December 31, 2004 and for the year ended December 31, 2005. The Company and its subsidiaries federal, foreign and state income tax returns are generally subject to audit for all tax periods beginning in 2003 through the present year.

As of January 1, 2008, the Company has accrued approximately \$6.1 million of interest related to uncertain tax positions. As of March 29, 2008, the total amount of accrued interest related to uncertain tax positions is approximately \$6.9 million. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state taxes.

- (G) At March 29, 2008, the Company's former subsidiary, Ply Gem, has guaranteed approximately \$18.9 million of third party obligations relating to rental payments through June 30, 2016 under a facility leased by a former subsidiary, which was sold on September 21, 2001. The Company has indemnified these guarantees in connection with the sale of Ply Gem on February 12, 2004 and has recorded an estimated liability related to this indemnified guarantee of approximately \$0.8 million at March 29, 2008 in accordance with Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). The buyer of the former subsidiary has provided certain indemnifications and other rights to Nortek for any payments that it might be required to make pursuant to this guarantee. Should the buyer of the former subsidiary cease making payments then the Company may be required to make payments on its indemnification.

The Company has indemnified third parties for certain matters in a number of transactions involving dispositions of former subsidiaries. The Company has recorded liabilities in relation to these indemnifications, including the indemnified guarantee noted above, of approximately \$11.1 million at March 29, 2008 and December 31, 2007, respectively. Approximately \$5.0 million of short-term liabilities and approximately \$6.1 million of long-term liabilities are recorded in accrued expenses and other long-term liabilities, respectively, in the accompanying unaudited condensed consolidated balance sheet at March 29, 2008 related to these indemnifications.

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 payments are expected to be made in the succeeding year by the Company 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 reserves to record in the consolidated balance sheet. In certain cases where partial insurance coverage

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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. The majority of the Company's approximate \$56.1 million of recorded insurance liabilities at March 29, 2008 relate to product liability accruals of approximately \$35.8 million.

Changes in the Company's combined short-term and long-term product liability accruals during the first quarter ended March 29, 2008 and March 31, 2007 are as follows:

	<u>For the first quarter ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Amounts in millions)</i>	
Balance, beginning of the period	\$ 35.0	\$ 27.8
Provision during the period	2.9	3.3
Payments made during the period	(2.1)	(1.6)
Other adjustments	---	0.1
Balance, end of the period	<u>\$ 35.8</u>	<u>\$ 29.6</u>

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. Deferred revenue from extended warranties is recorded at the estimated fair value and is amortized over the life of the warranty and 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 introduction. The Company periodically assesses the adequacy of its recorded warranty claims and adjusts the amounts as necessary.

Changes in the Company's combined short-term and long-term warranty accruals during the first quarter ended March 29, 2008 and March 31, 2007 are as follows:

	<u>For the first quarter ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Amounts in millions)</i>	
Balance, beginning of the period	\$ 47.3	\$ 41.2
Warranties provided during the period	7.3	5.5
Settlements made during the period	(6.5)	(5.6)
Changes in liability estimate, including expirations and acquisitions	<u>0.6</u>	<u>0.4</u>
Balance, end of the period	<u>\$ 48.7</u>	<u>\$ 41.5</u>

The Company is subject to other contingencies, including legal proceedings and claims arising out of its businesses that cover a wide range of matters, including, among others, environmental matters, contract and employment claims, product liability, warranty and modification 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 have been or may be deemed to be hazardous or dangerous, and the extent of its potential liability, if any, under environmental, product liability and workers' compensation statutes, rules, regulations and case law is unclear. Further, due to the lack of adequate information and the potential impact of present regulations and any future regulations, there are certain circumstances in which no range of potential exposure may be reasonably estimated.

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While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, the Company believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company. It is possible, however, that future 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.

- (H) The Company records restructuring costs primarily in connection with operations acquired or facility closings which management plans to eliminate in order to improve future operating results of the Company.

During the first quarter ended March 31, 2007, the Company recorded liabilities and expensed into selling, general and administrative expense, net approximately \$0.6 million in the accompanying unaudited condensed consolidated statement of operations related to the closure of its NuTone Cincinnati, OH facility and the relocation of such operations to certain other subsidiaries of the Company within the RVP segment. The NuTone facility was shutdown in the third quarter of 2007 and approximately 59 employees were terminated. Prior to August 2006, this facility supported manufacturing, warehousing and distribution activities for NuTone. The Company does not anticipate recording any further expenses associated with this shutdown during 2008.

During the second quarter of 2007, after meeting and negotiating with the bargaining committee of the Teamsters Local 970, representing approximately 127 union employees of the Company's wholly-owned subsidiary Mammoth, Inc. ("Mammoth") located in Chaska, Minnesota, it was decided to shut down manufacturing operations at the Chaska plant and relocate such operations to other manufacturing facilities within the Commercial HVAC Group. It is estimated that an additional approximate \$0.8 million will be expensed in 2008 related to this shutdown, none of which was incurred during the first quarter ended March 29, 2008.

On August 8, 2007, after negotiating with the bargaining committee of the Steel, Paper House, Chemical Drivers and Helpers, Local No. 578, which represented approximately 64 union employees located at the Vernon, CA manufacturing facility of the Company's wholly-owned subsidiary Jensen, Inc. ("Jensen"), the decision was made to shut down manufacturing operations and relocate such operations to other manufacturing facilities within the RVP segment. Additionally, on such date, Jensen finalized its negotiations with the union over the severance benefits associated with this shutdown. The Company does not anticipate recording any further expenses associated with this shutdown in 2008.

The following table sets forth restructuring activity in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146") in the accompanying consolidated statement of operations for the periods presented. These costs are included in cost of goods sold and selling, general and administrative expense, net in the accompanying consolidated statement of operations of the Company.

	<u>Employee Separation Expenses</u>	<u>Other</u>	<u>Total Restructuring Costs</u>
	<i>(Dollar amounts in millions)</i>		
Balance at December 31, 2007	\$ 1.6	\$ 1.0	\$ 2.6
Payments and asset write downs	(1.1)	(0.3)	(1.4)
Other	(0.1)	0.1	---
Balance at March 29, 2008	<u>\$ 0.4</u>	<u>\$ 0.8</u>	<u>\$ 1.2</u>

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

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- (I) The Company 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.

Pension and profit sharing expense charged to operations aggregated approximately \$1.6 million and \$2.4 million for the first quarter ended March 29, 2008 and March 31, 2007, respectively.

The Company's policy is to generally fund currently at least the minimum required annual contribution of its various qualified defined benefit plans. At March 29, 2008, the Company estimated that approximately \$3.4 million would be contributed to the Company's defined benefit pension plans in 2008, of which approximately \$0.3 million was made in the first quarter of 2008. The Company estimates that approximately \$1.2 million will be paid in the second quarter of 2008, approximately \$1.0 million will be paid in the third quarter of 2008 and approximately \$0.9 million will be paid in the fourth quarter of 2008.

The Company's unaudited net periodic benefit (income) cost for its defined benefit plans for the first quarter ended March 29, 2008 and March 31, 2007 consists of the following components:

	<u>For the first quarter ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Dollar amounts in millions)</i>	
Service cost	\$ 0.1	\$ 0.1
Interest cost	2.5	2.4
Expected return on plan assets	<u>(2.7)</u>	<u>(2.5)</u>
Net periodic benefit income	<u>\$ (0.1)</u>	<u>\$ ---</u>

The Company's unaudited net periodic benefit cost for its subsidiary's Post-Retirement Health Benefit Plan for the first quarter ended March 29, 2008 and March 31, 2007 consists of the following components:

	<u>For the first quarter ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Dollar amounts in millions)</i>	
Interest cost	\$ 0.1	\$ 0.1
Amortization of prior service cost	<u>(0.1)</u>	<u>(0.1)</u>
Net periodic post-retirement health cost	<u>\$ ---</u>	<u>\$ ---</u>

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

NTK Holdings, Inc. and its wholly-owned subsidiaries (individually and collectively the "Company" or "NTK Holdings") are leading diversified global manufacturers of innovative, branded residential and commercial products, operating within three reporting segments:

- the Residential Ventilation Products, or RVP, segment,
- the Home Technology Products, or HTP, segment, and
- the Air Conditioning and Heating Products, or HVAC, segment.

Through these segments, the Company manufactures and sells, primarily in the United States, Canada and Europe, a wide variety of products for the professional remodeling and replacement markets, the residential and commercial construction markets, the manufactured housing market and the do-it-yourself ("DIY") market.

As used in this report, the terms "Company" and "NTK Holdings" refer to NTK Holdings, Inc., together with its subsidiaries, unless the context indicates otherwise. Such terms as "Company" and "NTK Holdings" are used for convenience only and are not intended as a precise description of any of the separate corporations, each of which manages its own affairs.

The Residential Ventilation Products segment manufactures and sells room and whole house ventilation products and other products primarily for the professional remodeling and replacement markets, the residential new construction market and the DIY 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.

The Home Technology Products segment manufactures and sells a broad array of products designed to provide convenience and security for residential and certain commercial applications. The principal products sold by this segment include:

- audio / video distribution and control equipment,
- speakers and subwoofers,
- security and access control products,
- power conditioners and surge protectors,
- audio / video wall mounts and fixtures,
- lighting and home automation controls, and
- structured wiring.

The Air Conditioning and Heating Products segment manufactures and sells heating, ventilating and air conditioning systems for site-built residential and manufactured housing structures, custom-designed commercial applications and standard light commercial products. The principal products sold by this segment include:

- split system air conditioners and heat pumps,
- furnaces and related equipment,
- air handlers, and
- large custom roof top cooling and heating products.

In the results of operations presented below, Unallocated includes corporate related items, intersegment eliminations and certain income and expense not allocated to its segments.

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Changes in Structure and Ownership

Over the past several years, the Company has undergone changes in its structure and ownership that are useful to an understanding of the Company's financial results over this time period.

- Nortek had been a public company for over thirty-five years until November 2002 when the former Nortek Holdings was formed to become its holding company and successor public company.
- The former Nortek Holdings was then taken private in an acquisition by affiliates and designees of Kelso & Company L.P., together with members of the Company's management, in January 2003.
- Affiliates of THL, together with members of the Company's management, purchased the former Nortek Holdings from affiliates and designees of Kelso & Company L.P. in August 2004. The former Nortek Holdings was merged out of existence and a newly formed acquisition subsidiary became the parent company of Nortek and was renamed Nortek Holdings.
- NTK Holdings, then a newly formed company, became the parent company of Nortek Holdings in February 2005 in order to facilitate a financing and related dividend.

In connection with these transactions, the Company has incurred a significant amount of indebtedness. For further discussion, see "Liquidity and Capital Resources".

Financial Statement Presentation

The unaudited condensed consolidated financial statements presented herein (the "Unaudited Financial Statements") reflect the financial position, results of operations and cash flows of NTK Holdings, Inc. and all of its wholly-owned subsidiaries.

Acquisitions

The Company accounts for acquisitions under the purchase method of accounting and accordingly, the results of these acquisitions are included in the Company's consolidated results since the date of their acquisition. The Company has made the following acquisitions since January 1, 2007:

<u>Acquired Company</u>	<u>Date of Acquisition</u>	<u>Primary Business of Acquired Company</u>	<u>Reporting Segment</u>
Stilpol SP. Zo.O.	September 18, 2007	Supply various fabricated material components and sub-assemblies used by the Company's Best subsidiaries in the manufacture of kitchen range hoods.	RVP
Metaltecnica S.r.l.	September 18, 2007	Supply various fabricated material components and sub-assemblies used by the Company's Best subsidiaries in the manufacture of kitchen range hoods.	RVP
Triangle	August 1, 2007	Manufacture, marketing and distribution of bath cabinets and related products.	RVP
Home Logic, LLC	July 27, 2007	Design and sale of software and hardware that facilitates the control of third party residential subsystems such as home theater, whole-house audio, climate control, lighting, security and irrigation.	HTP
Aigis Mechtronics, Inc.	July 23, 2007	Manufacture and sale of equipment, such as camera housings, into the close-circuit television portion of the global security market.	HTP
International Electronics, Inc.	June 25, 2007	Design and sale of security and access control components and systems for use in residential and light commercial applications.	HTP
c.p. All Star Corporation	April 10, 2007	Manufacture and distribution of residential, commercial and industrial gate operators, garage door openers, radio controls and accessory products for the garage door and fence industry.	HTP
Par Safe / Litewatch	March 26, 2007	Design and sale of home safes and solar LED security lawn signs.	HTP
LiteTouch, Inc.	March 2, 2007	Design, manufacture and sale of automated lighting control for a variety of applications including residential, commercial, new construction and retro-fit.	HTP

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Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Unaudited Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Certain of the Company's accounting policies require the application of judgment in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. The Company periodically evaluates the judgments and estimates used for its critical accounting policies to ensure that such judgments and estimates are reasonable for its interim and year-end reporting requirements. These judgments and estimates are based on the Company's historical experience, current trends and information available from other sources, as appropriate. If different conditions result from those assumptions used in the Company's judgments, the results could be materially different from the Company's estimates. The Company's critical accounting policies include:

- Revenue Recognition, Accounts Receivable and Related Expenses
- Inventory Valuation
- Income Taxes
- Goodwill and Other Long-Lived Assets
- Pensions and Post-Retirement Health Benefits
- Warranty, Product Recalls and Safety Upgrades
- Insurance Liabilities, including Product Liability, and
- Contingencies

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

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

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Results of Operations

The following table presents the financial information for the Company's reporting segments for the first quarter ended March 29, 2008 and March 31, 2007:

	For the first quarter ended		Net Change	
	March 29, 2008	March 31, 2007	\$	%
	<i>(Dollar amounts in millions)</i>			
Net sales:				
Residential ventilation products	\$ 188.2	\$ 208.7	\$ (20.5)	(9.8) %
Home technology products	124.1	123.2	0.9	0.7
Air conditioning and heating products	227.9	220.6	7.3	3.3
Consolidated net sales	<u>\$ 540.2</u>	<u>\$ 552.5</u>	<u>\$ (12.3)</u>	(2.2) %
Operating earnings:				
Residential ventilation products (1)	\$ 15.9	\$ 25.2	\$ (9.3)	(36.9) %
Home technology products (2)	10.3	16.5	(6.2)	(37.6)
Air conditioning and heating products (3)	4.7	9.8	(5.1)	(52.0)
Subtotal	30.9	51.5	(20.6)	(40.0)
Unallocated:				
Stock-based compensation charges	---	(0.1)	0.1	(100.0)
Foreign exchange gain on transactions, including intercompany debt	0.1	0.1	---	---
Unallocated, net	(7.6)	(6.7)	(0.9)	(13.4)
Consolidated operating earnings	<u>\$ 23.4</u>	<u>\$ 44.8</u>	<u>\$ (21.4)</u>	(47.8) %
Depreciation and amortization expense:				
Residential ventilation products	\$ 6.1	\$ 4.3	\$ 1.8	41.9 %
Home technology products	4.9	4.0	0.9	22.5
Air conditioning and heating products	6.1	6.0	0.1	1.7
Unallocated	0.3	0.3	---	---
	<u>\$ 17.4</u>	<u>\$ 14.6</u>	<u>\$ 2.8</u>	19.2 %
Operating earnings margin:				
Residential ventilation products (1)	8.4 %	12.1 %		
Home technology products (2)	8.3	13.4		
Air conditioning and heating products (3)	2.1	4.4		
Consolidated	4.3 %	8.1 %		
Depreciation and amortization expense as a % of net sales:				
Residential ventilation products	3.2 %	2.1 %		
Home technology products	3.9	3.2		
Air conditioning and heating products	2.7	2.7		
Consolidated	3.2 %	2.6 %		

- (1) The operating results of the RVP segment for the first quarter ended March 29, 2008 include net foreign exchange losses of approximately \$0.5 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.
The operating results of the RVP segment for the first quarter ended March 31, 2007 include an approximate \$0.6 million charge related to the closure of the Company's NuTone, Inc. Cincinnati, Ohio facility, legal and other professional fees and expenses incurred in connection with matters related to certain subsidiaries based in Italy and Poland of approximately \$1.0 million and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.
- (2) The operating results of the HTP segment for the first quarter ended March 29, 2008 include approximately \$0.2 million of fees and expenses incurred in connection with a dispute with a supplier.
- (3) The operating results of the HVAC segment for the first quarter ended March 29, 2008 include net foreign exchange gains of approximately \$0.3 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.
The operating results of the HVAC segment for the first quarter ended March 31, 2007 include a charge of approximately \$1.8 million related to reserves for amounts due from customers and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

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The following table presents the financial information for the first quarter ended March 29, 2008 and March 31, 2007. The results of operations for the first quarter ended March 29, 2008 are not necessarily indicative of the results of operations to be expected for any other interim period or the full year.

	For the first quarter ended		Change in earnings in the first quarter of 2008 as compared to the first quarter of 2007	
	March 29, 2008	March 31, 2007	\$	%
	<i>(Dollar amounts in millions)</i>			
Net sales	\$ 540.2	\$ 552.5	\$ (12.3)	(2.2) %
Cost of products sold	391.6	384.6	(7.0)	(1.8)
Selling, general and administrative expense, net (1)	118.5	117.1	(1.4)	(1.2)
Amortization of intangible assets	6.7	6.0	(0.7)	(11.7)
Operating earnings	23.4	44.8	(21.4)	(47.8)
Interest expense	(43.0)	(42.3)	(0.7)	(1.7)
Investment income	0.2	0.4	(0.2)	(50.0)
(Loss) earnings before (benefit)				
provision for income taxes	(19.4)	2.9	(22.3)	*
(Benefit) provision for income taxes	(5.4)	1.7	7.1	*
Net (loss) earnings	<u>\$ (14.0)</u>	<u>\$ 1.2</u>	<u>\$ (15.2)</u>	* %

	Percentage of net sales for the first quarter ended		Change in percentage for the first quarter of 2008 as compared to the first quarter of 2007	
	March 29, 2008	March 31, 2007		
Net sales	100.0 %	100.0 %	---	%
Cost of products sold	72.5	69.6	(2.9)	
Selling, general and administrative expense, net (1)	21.9	21.2	(0.7)	
Amortization of intangible assets	1.3	1.1	(0.2)	
Operating earnings	4.3	8.1	(3.8)	
Interest expense	(8.0)	(7.7)	(0.3)	
Investment income	0.1	0.1	---	
(Loss) earnings before (benefit)				
provision for income taxes	(3.6)	0.5	(4.1)	
(Benefit) provision for income taxes	(1.0)	0.3	1.3	
Net (loss) earnings	<u>(2.6) %</u>	<u>0.2 %</u>	<u>(2.8) %</u>	%

(1) See Note D of the Notes to the Unaudited Financial Statements included elsewhere herein.

* not meaningful

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The Company's reporting segments have 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, the Company attempts to make appropriate disclosure of such reasons, including changes in price, volume and the mix of products sold.

Excluding the effect of acquisitions and foreign exchange, the operating results of the Company were adversely impacted in the first quarter of 2008 by a decline in sales volume in residential ventilation products as the housing market continued to weaken. The results of operations for the first quarter ended March 29, 2008 are not necessarily indicative of the results of operations to be expected for any other interim period or the full year. The demand for certain of the Company's products is seasonal, particularly in the Northeast and Midwest regions of the United States where inclement weather during winter months usually reduces the level of building and remodeling activity in both home improvement and new construction markets, thereby reducing the Company's sales levels during the first and fourth quarters. Despite the current volatile operating environment, the Company has certain new business prospects for the balance of 2008 and expects such prospects will contribute positively to earnings, as discussed further below. An overall decline in sales volume without a proportionate decline in overhead costs and slightly higher material and transportation costs, which were partially offset by continued strategic sourcing initiatives as well as sales price increases, also adversely impacted the first quarter ended March 29, 2008. The Company believes that declines in existing home sales and the instability in the troubled mortgage market will have a negative impact on consumer spending on home remodeling and repair expenditures throughout 2008, which will have an adverse effect on the Company's operating results throughout the remainder of 2008.

Net Sales. Consolidated net sales decreased approximately \$12.3 million or 2.2% for the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007 as discussed further in the following paragraphs. The effect of changes in foreign currency exchange rates and acquisitions contributed approximately \$12.0 million and \$11.2 million, respectively, to net sales for the first quarter ended March 29, 2008.

In the RVP segment, net sales decreased approximately \$20.5 million or 9.8% for the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007. Net sales in the RVP segment for the first quarter ended March 29, 2008 reflects an increase of approximately \$8.8 million attributable to the effect of changes in foreign currency exchange rates and approximately \$1.0 million attributable to acquisitions.

Excluding the effect of foreign exchange and acquisitions, net sales in the RVP segment decreased approximately \$30.3 million for the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007. The decrease in net sales in the RVP segment for the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007 reflects lower sales volume of bathroom exhaust fans and kitchen range hoods, primarily in the RVP segment's domestic subsidiaries, partially offset by higher average unit sales price of bathroom exhaust fans. The average unit sales price of kitchen range hoods for the first quarter of 2008 was down slightly as compared to 2007. Higher average unit sales price of bathroom exhaust fans reflect, in part, the impact of the sale of new products with higher price points and an increase in the relative percentage of products sold with higher sales price points as compared to 2007. Kitchen range hoods and bathroom exhaust fans are the largest product category sold in the RVP segment, accounting for approximately 80.5% of the total RVP segment's gross sales for the first quarter ended March 29, 2008. Excluding the effect of foreign currency exchange rates and acquisitions, sales of range hoods and bathroom exhaust fans decreased approximately 17.2% and 11.0% in the first quarter ended March 29, 2008 for the RVP segment's domestic and foreign subsidiaries, respectively.

In the HTP segment, net sales increased approximately \$0.9 million or 0.7% for the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007. Net sales in the HTP segment for the first quarter ended March 29, 2008 includes approximately \$10.2 million attributable to acquisitions. Excluding the effect of acquisitions, net sales in the HVP segment decreased by approximately \$9.3 million. This decrease is due to decreased sales of audio and video distribution equipment and speakers, partially offset by an increase in sales of certain security and access control products.

In the HVAC segment, net sales increased approximately \$7.3 million or 3.3% for the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007. Net sales in the HVAC segment for the first quarter ended March 29, 2008 reflects an increase of approximately \$3.2 million attributable to the effect of changes in

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foreign currency exchange rates. The remaining increase in net sales in the HVAC segment for the first quarter ended March 29, 2008 as compared to the same period of 2007 includes higher sales volume of HVAC products sold to residential site-built and manufactured housing customers, in part, as a result of a sizeable new customer. Increased sales volume of HVAC products sold to residential site-built and manufacturing housing customers was partially offset by a decrease in sales volume for commercial air conditioning products, principally as a result of the completion and shipment of a major job, which contributed approximately \$14 million of net sales in the first quarter of 2007, which did not occur in 2008. Backlog for commercial HVAC products was approximately \$175.4 million at March 31, 2007, approximately \$172.7 million at December 31, 2007 and approximately \$259.8 million at March 29, 2008. This increase in backlog serving commercial HVAC customers reflects a new order received in the first quarter of 2008 for approximately \$74.8 million, which the Company expects will be shipped and recorded over the balance of 2008. The Company's net sales to customers serving the manufactured housing markets, principally consisting of air conditioners and furnaces, constituted approximately 4.5% and 4.0% of the Company's consolidated net sales for the first quarter ended March 29, 2008 and March 31, 2007, respectively.

Foreign net sales, which are attributed based on the location of the Company's subsidiary responsible for the sale, were approximately 22.3% and 22.0% of consolidated net sales for the first quarter ended March 29, 2008 and March 31, 2007, respectively. Net sales from the Company's Canadian subsidiaries were approximately 9.2% and 8.6% of consolidated net sales for the first quarter ended March 29, 2008 and March 31, 2007, respectively. Net sales from the Company's Canadian subsidiaries include net sales from the Company's RVP and HVAC segments. Net sales from the Company's European subsidiaries were approximately 10.7% and 11.4% of consolidated net sales for the first quarter ended March 29, 2008 and March 31, 2007, respectively. Net sales from the Company's European subsidiaries include net sales primarily from the Company's RVP and HVAC segments and to a lesser extent the Company's HTP segment.

Cost of Products Sold. Consolidated cost of products sold was approximately \$391.6 million for the first quarter ended March 29, 2008 as compared to approximately \$384.6 million for the first quarter ended March 31, 2007. Cost of products sold, as a percentage of net sales, increased from approximately 69.6% for the first quarter ended March 31, 2007 to approximately 72.5% for the first quarter ended March 29, 2008 primarily as a result of the factors described below.

The Company consistently reviews the costs of its product lines and seeks opportunities to increase prices to help offset the rising costs of raw materials and transportation. The Company did implement certain limited price increases in each of its three segments in the first quarter of 2008 to help offset higher costs. In addition, the Company has several increases planned across all three of its segments for the remainder of the year should its costs for raw material and transportation continue to rise. These price increases may not be totally realized and may not totally offset the impact of higher costs.

Overall, consolidated material costs were approximately 46.9% and 45.0% of net sales for the first quarter ended March 29, 2008 and March 31, 2007, respectively. As compared to the first quarter ended March 31, 2007, the Company experienced higher material costs related primarily to purchases of steel. Cost increases during the first quarter ended March 29, 2008 as compared to the same period of 2007 were partially offset by continued strategic sourcing initiatives and improvements in manufacturing efficiency.

During the first quarter ended March 29, 2008 the Company experienced increased freight costs primarily due to increased fuel surcharges as compared to the first quarter of 2007. These increases were partially offset by the Company's strategic sourcing initiatives and through other cost reduction measures. These cost reduction measures reduce the overall effect of freight costs on cost of goods sold as a percentage of net sales.

Overall, changes in the cost of products sold as a percentage of net sales for one period as compared to another period may reflect a number of factors including changes in the relative mix of products sold, the effect of changes in sales prices, material costs and changes in productivity levels.

In the RVP segment, cost of products sold for the first quarter ended March 29, 2008 was approximately \$139.5 million, or 74.1% as a percentage of the RVP segment's net sales, as compared to approximately \$145.5 million, or 69.7% as a percentage of the RVP segment's net sales for the first quarter ended March 31, 2007. Cost of products sold in the RVP segment for the first quarter ended March 29, 2008 includes (1) an increase of approximately \$7.1 million related to the effect of changes in foreign currency exchange rates and (2) an increase of

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approximately \$0.7 million contributed by acquisitions. The increase in the percentage of cost of products sold to net sales for the first quarter ended March 29, 2008 over the same period of 2007 in the RVP segment reflects the impact of the above items and a decline in sales volume of kitchen range hoods and bathroom exhaust fans without a proportionate decrease in overhead costs.

In the HTP segment, cost of products sold for the first quarter ended March 29, 2008 was approximately \$67.7 million, or 54.6% as a percentage of the HTP segment's net sales, as compared to approximately \$65.8 million, or 53.4% as a percentage of the HTP segment's net sales for the first quarter ended March 31, 2007. Cost of products sold in the HTP segment for the first quarter ended March 29, 2008 reflects approximately \$6.4 million of cost of products sold contributed by acquisitions. The increase in the percentage of cost of products sold to net sales for the first quarter ended March 29, 2008 as compared to the same period of 2007 is primarily as a result of increased material costs.

In the HVAC segment, cost of products sold for the first quarter ended March 29, 2008 was approximately \$184.4 million, or 80.9% as a percentage of the HVAC segment's net sales, as compared to approximately \$173.3 million, or 78.6% as a percentage of the HVAC segment's net sales for the first quarter ended March 31, 2007. Cost of products sold in the HVAC segment for the first quarter ended March 29, 2008 includes an increase of approximately \$2.5 million related to the effect of changes in foreign currency exchange rates. The increase in cost of products sold as a percentage of net sales for the first quarter ended March 29, 2008 as compared to the same period of 2007 reflects the effect of a decline in sales volume for commercial air conditioning products without a proportionate decrease in overhead costs, partially offset by a decrease in material costs as a percentage of net sales for products sold to both residential site-built and manufactured housing customers.

Selling, General and Administrative Expense, Net. Consolidated selling, general and administrative expense, net ("SG&A") was approximately \$118.5 million for the first quarter ended March 29, 2008 as compared to approximately \$117.1 million for the first quarter ended March 31, 2007. SG&A as a percentage of net sales increased from approximately 21.2% for the first quarter ended March 31, 2007 to approximately 21.9% for the first quarter ended March 29, 2008.

SG&A for the first quarter ended March 29, 2008 and March 31, 2007 includes the following (income) and expense items (see Note D of the Notes to the Consolidated Financial Statements included elsewhere herein):

	For the first quarter ended	
	March 29, 2008	March 31, 2007
	<i>(Amounts in millions)</i>	
(1) SG&A related to acquisitions	\$ 4.9	\$ ---
(2) Effect of changes in foreign currency exchange rates	1.8	---
(3) Charges related to the closure of the Company's NuTone, Inc. Cincinnati, OH facility	---	0.6
(4) Legal and other professional fees and expenses incurred in connection with matters related to certain subsidiaries based in Italy and Poland	---	1.0
(5) Charges related to reserves for amounts due from customers in the HVAC segment	---	1.8
(6) Decrease in displays expense in the RVP segment	(3.2)	---
(7) Net foreign exchange losses related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries	0.1	0.3
(8) Stock-based compensation expense	---	0.1
(9) Legal fees and expenses incurred in the HTP segment in connection with a dispute with a supplier	0.2	---

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Amortization of Intangible Assets. Amortization of intangible assets increased approximately \$0.7 million from approximately \$6.0 million for the first quarter ended March 31, 2007 to approximately \$6.7 million for the first quarter ended March 29, 2008. The increase in amortization of intangible assets is principally due to the impact of acquisitions, which contributed approximately \$0.4 million to the increase for the first quarter ended March 29, 2008.

Depreciation Expense. Depreciation expense increased approximately \$2.1 million from approximately \$8.6 million for the first quarter ended March 31, 2007 to approximately \$10.7 million for the first quarter ended March 29, 2008. This increase is primarily attributable to capital expenditures, and to a lesser extent the impact of acquisitions, which represented approximately \$0.2 million of the increase.

Operating Earnings. Consolidated operating earnings decreased by approximately \$21.4 million from approximately \$44.8 million for the first quarter ended March 31, 2007 to approximately \$23.4 million for the first quarter ended March 29, 2008. The effect of changes in foreign currency exchange rates contributed approximately \$0.6 million to operating earnings for the first quarter ended March 29, 2008, while the impact of acquisitions decreased operating earnings by approximately \$1.2 million. The decrease in consolidated operating earnings is primarily due to the factors discussed above and that follow. Operating earnings, as a percentage of net sales, decreased from approximately 8.1% for the first quarter ended March 31, 2007 to approximately 4.3% for the first quarter ended March 29, 2008.

Operating earnings of the RVP segment for the first quarter ended March 29, 2008 were approximately \$15.9 million as compared to approximately \$25.2 million for the first quarter ended March 31, 2007. Operating earnings in the RVP segment for the first quarter ended March 29, 2008 and March 31, 2007 includes the following increases (decreases) in operating earnings:

	<u>For the first quarter ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Amounts in millions)</i>	
(1) Decrease in displays expense in the RVP segment	\$ 3.2	\$ ---
(2) Legal and other professional fees and expenses incurred in connection with matters related to certain subsidiaries based in Italy and Poland	---	(1.0)
(3) Charges related to the closure of the Company's NuTone, Inc. Cincinnati, OH facility	---	(0.6)
(4) Increased depreciation expense of property and equipment	(1.2)	---
(5) Net foreign exchange losses related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries	(0.5)	(0.2)
(6) Increase in operating earnings related to effect of changes in foreign currency exchange rates	0.5	---
(7) Decrease in operating earnings related to acquisitions	(0.3)	---
(8) Increased amortization of intangible assets	(0.6)	---

The remaining decrease in operating earnings in the RVP segment for the first quarter ended March 29, 2008 as compared to the same period in 2007 is a result of lower sales volume of kitchen range hoods and bathroom exhaust fans without a proportionate decline in overhead costs primarily in the United States market.

Operating earnings of the HTP segment for the first quarter ended March 29, 2008 were approximately \$10.3 million as compared to approximately \$16.5 million for the first quarter ended March 31, 2007. Operating earnings of the HTP segment for the first quarter ended March 29, 2008 reflects (1) a decrease of approximately \$0.9 million contributed by acquisitions, (2) approximately \$0.3 million of increased depreciation expense of property and equipment and approximately \$0.6 million of increased amortization of intangible assets, primarily attributable to acquisitions, both of which are included in the impact of acquisitions noted above and (3) approximately \$0.2 million of fees and expenses incurred in connection with a dispute with a supplier.

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The remaining decrease in operating earnings in the HTP segment for the first quarter ended March 29, 2008 over the same period in 2007 is primarily a result of decreased sales volume of audio and video distribution equipment and speakers and increased material costs, partially offset by higher sales volume of certain security and access control devices.

Operating earnings of the HVAC segment were approximately \$4.7 million for the first quarter ended March 29, 2008 as compared to approximately \$9.8 million for the first quarter ended March 31, 2007. Operating earnings of the HVAC segment for the first quarter ended March 29, 2008 reflect (1) approximately \$0.6 million of increased depreciation expense of property and equipment and approximately \$0.5 million of decreased amortization of intangible assets, (2) an increase in earnings of approximately \$0.1 million from the effect of foreign currency exchange rates and (3) net foreign exchange gains of approximately \$0.3 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

Operating earnings of the HVAC segment for the first quarter ended March 31, 2007 reflects (1) a charge of approximately \$1.8 million related to reserves for amounts due from customers and (2) net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

The remaining decrease in operating earnings in the HVAC segment for the first quarter ended March 29, 2008 as compared to the same period in 2007 is primarily the result of lower sales volume for products sold to commercial customers without a proportionate decline in overhead costs, partially offset by higher sales volume of products sold to both residential site-built and manufactured housing customers.

Operating earnings of foreign operations, consisting primarily of the results of operations of the Company's Canadian subsidiaries, were approximately 6.1% and 17.6% of operating earnings (before unallocated and corporate expenses) for the first quarter ended March 29, 2008 and March 31, 2007, respectively. Net sales and earnings derived from international markets are subject to, among others, the risks of currency fluctuations.

Interest Expense. Interest expense increased approximately \$0.7 million or approximately 1.7% during the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007. This increase is primarily as a result of approximately \$2.1 million of additional interest expense from increased average principle balances on the Company's debt obligations and approximately \$0.6 million of effective interest relating to the amortization of the debt discount on the Company's senior unsecured loan facility issued in May 2006 (see Note B to the Notes to the Unaudited Financial Statements included elsewhere herein), partially offset by a decrease of approximately \$2.0 million related to decreased interest rates in the first quarter of 2007 as compared to the same period of 2006.

Investment Income. Investment income was approximately \$0.2 million and \$0.4 million for the first quarter ended March 29, 2008 and March 31, 2007, respectively.

(Benefit) Provision for Income Taxes. The benefit from income taxes was approximately \$5.4 million for the first quarter ended March 29, 2008 as compared to a provision for income taxes of approximately \$1.7 million for the first quarter ended March 31, 2007. The effective income tax rates of 27.8% and 58.6% for the first quarter ended March 29, 2008 and March 31, 2007, respectively, differ from the expected United States federal statutory rate of 35% principally as a result of state income tax provisions, non-deductible expenses, the effect of foreign operations and interest on uncertain tax positions. The decrease in the effective income tax rates between 2008 and 2007 is principally due to interest on uncertain tax positions (see Note F of the Notes to the Unaudited Financial Statements included elsewhere herein).

Net (Loss) Earnings. Consolidated net (loss) earnings decreased by approximately \$15.2 million from net earnings of approximately \$1.2 million, or 0.2% as a percentage of net sales, for the first quarter ended March 31, 2007 to a net loss of approximately \$14.0 million for the first quarter ended March 29, 2008. This decrease was primarily due to the factors discussed above, which included a decrease of approximately \$21.4 million in consolidated operating earnings, an increase of approximately \$0.7 million in interest expense and a decrease in investment income of approximately \$0.2 million, partially offset by a decrease of approximately \$7.1 million in the (benefit) provision for income taxes.

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EBITDA. The Company uses EBITDA as both an operating performance and liquidity measure. Operating performance measure disclosures with respect to EBITDA are provided below. Refer to the Liquidity and Capital Resources section for liquidity measure disclosures with respect to EBITDA and a reconciliation from net cash flows from operating activities to EBITDA.

EBITDA is defined as net earnings (loss) before interest, taxes, depreciation and amortization expense. EBITDA is not a measure of operating performance under U.S. generally accepted accounting principles ("GAAP") and should not be considered as an alternative or substitute for GAAP profitability measures such as operating earnings (loss) from continuing operations, discontinued operations, extraordinary items and net earnings (loss). EBITDA as an operating performance measure has material limitations since it excludes, among other things, the statement of operations impact of depreciation and amortization expense, interest expense and the provision (benefit) for income taxes and therefore does not necessarily represent an accurate measure of profitability, particularly in situations where a company is highly leveraged or has a disadvantageous tax structure. The Company uses a significant amount of capital assets and therefore, depreciation and amortization expense is a necessary element of the Company's costs and ability to generate revenue and therefore its exclusion from EBITDA is a material limitation. The Company has a significant amount of debt and therefore, interest expense is a necessary element of the Company's costs and ability to generate revenue and therefore its exclusion from EBITDA is a material limitation. The Company generally incurs significant U.S. federal, state and foreign income taxes each year and the provision (benefit) for income taxes is a necessary element of the Company's costs and therefore its exclusion from EBITDA is a material limitation. As a result, EBITDA should be evaluated in conjunction with net earnings (loss) for a more complete analysis of the Company's profitability, as net earnings (loss) includes the financial statement impact of these items and is the most directly comparable GAAP operating performance measure to EBITDA. As EBITDA is not defined by GAAP, the Company's definition of EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that EBITDA has as an analytical tool, investors should not consider it in isolation, or as a substitute for analysis of the Company's operating results as reported under GAAP.

Company management uses EBITDA as a supplementary non-GAAP operating performance measure to assist with its overall evaluation of Company and subsidiary operating performance (including the performance of subsidiary management) relative to outside peer group companies. In addition, the Company uses EBITDA as an operating performance measure in financial presentations to the Company's Board of Directors, shareholders, various banks participating in Nortek's Credit Facility, note holders and Bond Rating agencies, among others, as a supplemental non-GAAP operating measure to assist them in their evaluation of the Company's performance. The Company is also active in mergers, acquisitions and divestitures and uses EBITDA as an additional operating performance measure to assess Company, subsidiary and potential acquisition target enterprise value and to assist in the overall evaluation of Company, subsidiary and potential acquisition target performance on an internal basis and relative to peer group companies. The Company uses EBITDA in conjunction with traditional GAAP operating performance measures as part of its overall assessment of potential valuation and relative performance and therefore does not place undue reliance on EBITDA as its only measure of operating performance.

The Company believes EBITDA is useful for both the Company and investors as it is a commonly used analytical measurement for comparing company profitability, which eliminates the effects of financing, differing valuations of fixed and intangible assets and tax structure decisions. The Company believes that EBITDA is specifically relevant to the Company, due to the different degrees of leverage among its competitors, the impact of purchase accounting associated with acquisitions, which impacts comparability with its competitors who may or may not have recently revalued their fixed and intangible assets, and the differing tax structures and tax jurisdictions of certain of the Company's competitors. The Company has included EBITDA as a supplemental operating performance measure, which should be evaluated by investors in conjunction with the traditional GAAP performance measures discussed earlier in this Results of Operations section for a complete evaluation of the Company's operating performance.

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The following table presents a reconciliation from net (loss) earnings, which is the most directly comparable GAAP operating performance measure, to EBITDA for the first quarter ended March 29, 2008 and March 31, 2007:

	<u>For the first quarter ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
	<i>(Dollar amounts in millions)</i>	
Net (loss) earnings (1), (2)	\$ (14.0)	\$ 1.2
(Benefit) provision for income taxes	(5.4)	1.7
Interest expense (3)	43.0	42.3
Investment income	(0.2)	(0.4)
Depreciation expense	10.7	8.6
Amortization expense	6.7	6.0
EBITDA	<u>\$ 40.8</u>	<u>\$ 59.4</u>

- (1) In the RVP segment, net loss for the first quarter ended March 29, 2008 includes net foreign exchange losses of approximately \$0.5 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

In the HTP segment, net loss for the first quarter ended March 29, 2008 includes approximately \$0.2 million of fees and expenses incurred in connection with a dispute with a supplier.

In the HVAC segment, net loss for the first quarter ended March 29, 2008 includes net foreign exchange gains of approximately \$0.3 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

- (2) In the RVP segment, net earnings for the first quarter ended March 31, 2007 include an approximate \$0.6 million charge related to the closure of the Company's NuTone, Inc. Cincinnati, Ohio facility, legal and other professional fees and expenses incurred in connection with matters related to certain subsidiaries based in Italy and Poland of approximately \$1.0 million and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

In the HVAC segment, net earnings for the first quarter ended March 31, 2007 include a charge of approximately \$1.8 million related to reserves for amounts due from customers and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

- (3) Interest expense for the first quarter ended March 29, 2008 includes cash interest of approximately \$26.0 million and non-cash interest of approximately \$17.0 million. Interest expense for the first quarter ended March 31, 2007 includes cash interest of approximately \$27.8 million and non-cash interest of approximately \$14.5 million.

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Liquidity and Capital Resources

The Company's principal sources of liquidity are its cash flow from subsidiaries, its ability to borrow under the terms of Nortek's revolving credit facility and its unrestricted cash and cash equivalents.

The Company's ability to pay interest on or to refinance its indebtedness depends on the Company's future performance, working capital levels and capital structure, which are subject to general economic, financial, competitive, legislative, regulatory and other factors which may be beyond its control. Critical factors in the level of the Company's 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 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 habits, employment levels and other macroeconomic factors, over which the Company has 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 the Company's sales, profitability and cash flows. Reduced levels of home sales and housing starts and other softening in the housing markets negatively affected the Company's results of operations and its cash flow in the first quarter of 2008 and these factors are expected to continue to negatively affect the Company's results of operations and its cash flow throughout 2008.

In addition, uncertainties due to the significant instability in the mortgage markets and the resultant impact on the overall credit market could continue to adversely impact the Company's business. The tightening of credit standards is expected to result in a decline in consumer spending for home remodeling and replacement projects which could adversely impact the Company's operating results and the cash flow from its subsidiaries. Additionally, increases in the cost of home mortgages and the difficulty in obtaining financing for new homes could continue to materially impact the sales of the Company's products in the residential construction market.

There can be no assurance that the Company will generate sufficient cash flow from the operation of its subsidiaries or that future financings will be available on acceptable terms or in amounts sufficient to enable the Company to service or refinance its indebtedness, or to make necessary capital expenditures.

In March 2008, Moody's downgraded the debt ratings for Nortek and its Parent Company, NTK Holdings, from "B2" to "B3" and issued a negative outlook. Moody's rating downgrade reflects the Company's high leverage, reduced financial flexibility and the anticipated pressure of the difficult new home construction market and home values on the Company's 2008 financial performance. The negative ratings outlook reflects Moody's concern that the market for the Company's products will remain under significant pressure so long as new housing starts do not rebound and that the repair and remodeling market could contract meaningfully in 2008 and possibly in 2009. Additionally, Moody's was concerned whether the Company's cost cutting initiatives would be successful enough so as to offset pressure on the Company's sales.

In April 2008, Standard & Poor's lowered its ratings for Nortek and its Parent Company, NTK Holdings, from "B" to "B-" and issued a negative outlook. Standard & Poor's rating downgrade reflects the Company's weaker overall financial profile resulting from the challenging operating conditions in the Company's new residential construction and remodeling markets. The negative outlook reflects Standard & Poor's concerns about the US economy, difficult credit markets and cost inflation, and the anticipation that the Company's credit metrics will remain challenged for at least the next several quarters.

On May 10, 2006, the Company borrowed an aggregate principal amount of \$205.0 million under a senior unsecured loan facility. The senior unsecured loan facility initially had a term of one year; however, on May 10, 2007, the Company exercised an option to extend the maturity date of its senior unsecured loan facility to March 1, 2014 and paid a loan extension fee of approximately \$4.5 million. As a result, the Company recorded approximately \$4.5 million as debt discount which is being amortized as non-cash interest expense using the interest method through March 1, 2014.

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The Company's senior unsecured loan facility bears interest at LIBOR plus a spread, which spread increases over time, subject to a cap on the overall interest rate of 11% per annum. At March 29, 2008, the senior unsecured loan facility had an actual interest rate of approximately 9.2%. The Company is accruing at an effective interest rate of approximately 10.9%, reflecting the estimated average interest rate over the remaining term of the senior unsecured loan facility. NTK Holdings has the option to pay interest in cash ("Cash Option") or by adding interest to the principal amount of the loans under the senior unsecured loan facility ("PIK Option"). If the Company exercises the PIK Option with respect to any interest period, an amount equal to the unpaid interest accrued will be added to the principal amount of the senior unsecured loan facility and such accrued interest will be deemed to have been paid. Following an increase in the principal amount of the senior unsecured loan facility as a result of the payment through the PIK Option, the senior unsecured loan facility will bear interest on such increased principal amount. The Company must elect the form of interest payment for each interest period. Since the initial borrowing on May 10, 2006, the Company has elected the PIK option to increase the principal amount of the senior unsecured loan facility for the interest accrued during the applicable interest periods. As a result of exercising this PIK Option, the Company recorded approximately \$5.7 million and \$4.7 million of accrued interest for the first quarter ended March 29, 2008 and March 31, 2007, respectively, as additional indebtedness relating to the senior unsecured loan facility. At March 29, 2008 and December 31, 2007, the actual outstanding principal balance on the senior unsecured loan facility was approximately \$243.7 million and \$238.0 million, respectively. The amount recorded as of March 29, 2008 and December 31, 2007, net of unamortized debt discount of approximately \$4.0 million and \$4.1 million, respectively, is approximately \$239.7 million and \$233.9 million, respectively. The senior unsecured loan facility is not guaranteed by any of the NTK Holdings' subsidiaries and is not secured by any assets of NTK Holdings or any of its subsidiaries.

Nortek's senior secured credit facility contains two financial maintenance covenants, which become more restrictive over time, and the Company cannot assure that these covenants will always be met particularly given the further deterioration of the new residential construction and repair and remodeling industries, plus the instability in the overall credit markets. These two covenants require that Nortek maintain at the end of each quarter, calculated based on the last twelve months, a Leverage Ratio and an Interest Coverage Ratio, each as defined. The Leverage Ratio must not exceed a defined ratio amount and the Interest Coverage Ratio must not be less than a defined ratio amount. The Leverage Ratio is calculated by dividing Nortek's total indebtedness, net of cash, (as defined) by EBITDA (as defined) and the Interest Coverage Ratio is calculated by dividing EBITDA (as defined) by interest expense, net (as defined).

At March 29, 2008, Nortek was required to maintain a Leverage Ratio not greater than 5.85:1 and an Interest Coverage Ratio of not less than 2.20:1. The Leverage Ratio requirement of 5.85:1 at March 29, 2008 tightens to 5.60:1 at the end of the second quarter of 2008 and further tightens to 5.25:1 at December 31, 2008, while the Interest Coverage Ratio requirement of 2.20:1 at March 29, 2008 remains the same through December 31, 2008, further tightening to 2.30:1 at March 28, 2009. Should Nortek not satisfy either of these covenants, Nortek's senior secured credit facility allows a cure, whereby a subsequent cash equity investment equal to the EBITDA shortfall, will be treated as EBITDA for purposes of the compliance calculations in the current and future periods. The senior secured credit facility allows for such a cure to occur twice within a consecutive twelve-month period.

In the first quarter of 2008, the Company's EBITDA for such quarter (as calculated in accordance with the senior secured credit facility) was below the level necessary to be in compliance with the Interest Coverage Ratio and the Leverage Ratio covenants as of the end of such quarter by approximately \$4.2 million. Nortek utilized the equity cure right under its senior secured credit facility to avoid any default otherwise arising out of such shortfall by receiving additional equity investments by certain investors of approximately \$4.2 million in the second quarter of 2008. Nortek's Leverage Ratio and Interest Coverage Ratio, after using the equity cure right as noted above, was 5.80:1 and 2.20:1, respectively, at March 29, 2008.

The Company expects that Nortek may also encounter events of non-compliance with the Interest Coverage Ratio and the Leverage Ratio covenants as of the end of the second quarter of 2008 and anticipates that Nortek may seek to use the equity cure right again to remedy any such non-compliance. Subsequent to the second quarter of 2008, based upon the Company's current forecast regarding Nortek's operating results for the balance of 2008 and the first quarter of 2009, the Company does not anticipate further events of non-compliance with the Interest Coverage Ratio and Leverage Ratio covenants as of the end of the third and fourth quarters of 2008 and the first quarter of 2009. To the extent Nortek experiences events of non-compliance with such covenants, which are not resolved through the use of the equity cure feature or other alternatives, Nortek would need to seek waivers or

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amendments from the lenders under its senior secured credit facility or refinance such facility. Should an event of non-compliance occur, Nortek will not be permitted to borrow under its credit facility until such time that a cure happens. If these events of non-compliance were to occur, and were not cured, an event of default would exist under Nortek's senior secured credit facility and would allow the lenders to accelerate the payment of indebtedness outstanding. In addition, an event of default under the credit facility would result in a cross default under substantially all of the Company's other senior and senior subordinated indebtedness. In light of the instability and uncertainty that currently exists within the financial and credit markets and the tightening of credit standards, Nortek may not be able to obtain any such waivers or amendments or any such refinancing on acceptable terms. In addition, any such waivers, amendments or refinancing may involve terms which would have a further adverse effect on the future cash flows of the Company. Based upon the application of equity cures, other potential equity investments and Nortek's forecast of its financial results for 2008 and the first quarter of 2009, the Company has determined that it is probable that Nortek will be in compliance with the terms of its senior secured credit facility through March 28, 2009 and as a result, the Company has classified Nortek's long-term indebtedness as a long-term liability in its consolidated balance sheet at March 29, 2008 and December 31, 2007, respectively.

A breach of the covenants under the indentures that govern NTK Holdings' 10 3/4% senior discount notes, and Nortek's 8 1/2% senior subordinated notes or under the agreements that govern NTK Holdings' senior unsecured loan facility and Nortek's senior secured credit facility could result in an event of default under the applicable indebtedness. 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 Nortek's senior secured credit facility would permit the lenders to terminate all commitments to extend further credit under that facility. Furthermore, if Nortek was unable to repay the amounts due and payable under its senior secured credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event the Company's lenders or noteholders accelerate the repayment of their borrowings, the Company cannot assure that the Company and its subsidiaries would have sufficient assets to repay such indebtedness. The Company's future financing arrangements will likely contain similar or more restrictive covenants. As a result of these restrictions, the Company may be:

- limited in how the Company conducts its business,
- unable to raise additional debt or equity financing to operate during general economic or business downturns, or
- unable to compete effectively or to take advantage of new business opportunities.

Such restrictions if imposed, would affect the Company's ability to grow in accordance with its plans.

At December 31, 2007, the Company's Best subsidiary was not in compliance with a maintenance covenant with respect to two loan agreements with two banks with aggregate borrowings outstanding of approximately \$9.4 million. The Company's Best subsidiary obtained waivers from the two banks, which indicated that the Company's Best subsidiary was not required to comply with the maintenance covenant as of December 31, 2007. The next measurement date for the maintenance covenant is for the year ended December 31, 2008 and the Company believes that it is probable that its Best subsidiary will be in compliance with the maintenance covenant when their assessment of the required calculation is completed in the first quarter of 2009. As a result, the Company has classified the outstanding borrowings under such agreements as a long-term liability in its consolidated balance sheet at March 29, 2008 and December 31, 2007, respectively.

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The Company had consolidated debt at March 29, 2008 of approximately \$2,044.2 million consisting of (i) \$110.5 million (including borrowings of approximately \$45.0 million under the U.S. revolving portion of Nortek's senior secured credit facility) of short-term borrowings and current maturities of long-term debt, (ii) \$43.0 million of long-term notes, mortgage notes and other indebtedness, (iii) \$10.0 million of Nortek's 9 7/8% Senior Subordinated Notes due 2011, (iv) \$625.0 million of Nortek's 8 1/2% Senior Subordinated Notes due 2014, (v) \$668.5 million of long-term debt outstanding under Nortek's senior secured credit facility, (vi) \$347.5 million of the Company's 10 3/4% Senior Discount Notes and (vii) \$239.7 million under the Company's unsecured term loan facility.

During the first quarter ended March 29, 2008, the Company had a net increase in its consolidated debt of approximately \$26.3 million resulting from:

<i>(Amounts in millions)</i>	
Borrowings under the revolving portion of Nortek's senior secured credit facility, including Nortek's swing line loan sub-facility	\$ 30.0
Payments made related to the revolving portion of Nortek's senior secured credit facility	(20.0)
Debt accretion related to the 10 3/4% Senior Discount Notes	8.9
Debt accretion relating to the PIK option on the senior unsecured loan facility	5.7
Debt discount, net relating to the senior unsecured loan facility	0.2
Additional borrowings related primarily to the Company's foreign subsidiaries	3.2
Foreign currency translation	4.1
Principal payments	<u>(5.8)</u>
Net change in consolidated debt	<u>\$ 26.3</u>

The Company's debt to equity ratio was approximately 27.1:1 at March 29, 2008 as compared to approximately 22.7:1 at December 31, 2007. The increase in the ratio was a result of an increase in indebtedness as noted above, as well as, a decrease in stockholder's investment, primarily due to a net loss of approximately \$14.0 million for the first quarter ended March 29, 2008.

As part of the Nortek senior secured credit facility, Nortek has a \$200.0 million revolving credit facility that matures in August 2010 and includes both a letter of credit sub-facility and swing line loan sub-facility. At May 9, 2008, Nortek had approximately \$80.0 million outstanding and approximately \$76.8 million of available borrowing capacity under the U.S. revolving portion of its senior secured credit facility, with approximately \$33.2 million in outstanding letters of credit. Borrowings under the revolving portion of the senior secured credit facility are used for general corporate purposes, including borrowings to fund working capital requirements. Under the Canadian revolving portion of its senior secured credit facility, Nortek had no outstanding borrowings and approximately \$10.0 million of available borrowing capacity. Letters of credit have been issued under Nortek's revolving credit facility as additional security for (1) approximately \$17.2 million relating to certain of the Company's insurance programs, (2) approximately \$3.4 million relating to leases outstanding for certain of the Company's manufacturing facilities and (3) approximately \$12.6 million relating to certain of the subsidiaries' purchases and other requirements. Letters of credit reduce borrowing availability under Nortek's revolving credit facility on a dollar for dollar basis.

The indentures and other agreements governing the Company and its subsidiaries' indebtedness (including the credit agreement for Nortek's senior secured credit facility) contain certain restrictive financial and operating covenants including covenants that restrict the ability of the Company and its subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets and take certain other corporate actions.

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At March 29, 2008, the Company had approximately \$59.8 million available for the payment of cash dividends, stock purchases or other restricted payments ("Restricted Payments") under the terms of the indenture governing the Company's 10 3/4% Senior Discount Notes' and the agreement governing the Company's senior unsecured loan facility. Restricted Payments to NTK Holdings and Nortek Holdings from Nortek are limited by the terms of Nortek's most restrictive loan agreement, Nortek's senior secured credit facility. The amount available for such payments under Nortek's senior secured credit facility was approximately \$170.6 million at March 29, 2008.

The Company and its subsidiaries, affiliates or significant shareholders may from time to time, in their sole discretion, purchase, repay, refinance, redeem or retire any of the Company's outstanding debt (including publicly issued debt), in privately negotiated or open market transactions, by tender offer or otherwise, which may be subject to restricted payment limitations.

The Company has evaluated and expects to continue to evaluate possible acquisition transactions and possible dispositions of certain of its businesses on an ongoing basis and at any given time may be engaged in discussions or negotiations with respect to possible acquisitions or dispositions. Contingent consideration of approximately \$32.7 million related to the acquisitions of Par Safe, ABT and Magenta Research, Ltd., which was accrued for at December 31, 2007, was paid in April 2008. The remaining estimated total maximum potential amount of contingent consideration that may be paid in the future for all completed acquisitions is approximately \$62.0 million.

The Company expects to meet its cash flow requirements for fiscal 2008, including debt repayments and acquisitions, from cash from operations, existing cash and cash equivalents and the use of Nortek's senior secured credit facility.

The Company and its subsidiaries have entered into a number of operating lease obligations, purchase obligations and have guaranteed certain obligations of various third parties. No significant changes in these obligations have occurred since December 31, 2007.

The Company's combined short-term and long-term product liability accruals increased from approximately \$35.0 million at December 31, 2007 to approximately \$35.8 million at March 29, 2008. Product liability expense decreased from approximately \$3.3 million for the first quarter ended March 31, 2007 to approximately \$2.9 million for the first quarter ended March 29, 2008. The decrease in product liability expense for the first quarter ended March 29, 2008 as compared to the first quarter ended March 31, 2007 is primarily as a result of a reduction of approximately \$0.5 million in product liability accruals being recorded in the first quarter of 2008 in the RVP segment. The Company records insurance liabilities and related expenses for product and general liability losses 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 (see Note G of the Notes to the Unaudited Financial Statements included elsewhere herein).

The Company's combined short-term and long-term warranty accruals increased from approximately \$47.3 million at December 31, 2007 to approximately \$48.7 million at March 29, 2008. Warranty expense increased from approximately \$5.5 million for the first quarter ended March 31, 2007 to approximately \$7.3 million for the first quarter ended March 29, 2008. The increase in warranty expense for the first quarter ended March 29, 2008 as compared to the same period of 2007 is primarily as a result of increased expense levels for residential HVAC products due to higher sales volume in the first quarter of 2008 as compared to the first quarter of 2007. The Company provides for estimated warranty liabilities at the time of sale and periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary (see Note G of the Notes to the Unaudited Financial Statements included elsewhere herein).

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Unrestricted cash and cash equivalents decreased from approximately \$53.4 million at December 31, 2007 to approximately \$53.0 million at March 29, 2008. 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 March 29, 2008, approximately \$3.3 million (of which approximately \$2.3 million is included in long-term assets) of cash and cash equivalents are held primarily as collateral to fund certain benefit obligations relating to supplemental executive retirement plans.

Capital expenditures were approximately \$7.3 million for the first quarter ended March 29, 2008 as compared to approximately \$6.8 million for the first quarter ended March 31, 2007. Capital expenditures were approximately \$36.4 million for the year ended December 31, 2007 and are expected to be between approximately \$30.0 million and \$35.0 million in 2008. Under Nortek's amended senior secured credit facility, capital expenditures are limited to approximately \$67.5 million in 2008.

The Company's working capital increased from approximately \$205.7 million at December 31, 2007 to approximately \$210.5 million at March 29, 2008, while the current ratio remained unchanged from December 31, 2007 to March 29, 2008 at 1.4:1. This increase in working capital for the first quarter ended March 29, 2008 was primarily a result of increases in inventories and accounts receivable and a decrease in accrued expenses and taxes, net, partially offset by increases in current debt obligations and accounts payable, as described further below and previously. The decrease in cash from December 31, 2007 to March 29, 2008 was also a contributing factor to the decrease in working capital.

Accounts receivable increased approximately \$7.7 million, or approximately 2.4%, between December 31, 2007 and March 29, 2008, while net sales decreased approximately \$29.0 million, or approximately 5.1%, in the first quarter of 2008 as compared to the fourth quarter of 2007. This increase in accounts receivable is primarily as a result of increased sales volume in the Company's residential HVAC products. The effect of changes in foreign currency exchange rates contributed approximately \$2.7 million to the increase in accounts receivable at March 29, 2008. The rate of change in accounts receivable in certain periods may be different than the rate of change in sales in such periods principally due to the timing of net sales. Increases or decreases in net sales near the end of any period generally result in significant changes in the amount of accounts receivable on the date of the balance sheet at the end of such period, as was the situation on March 29, 2008 as compared to December 31, 2007. Accounts receivable from customers related to foreign operations increased approximately \$1.0 million, or approximately 0.9%, between December 31, 2007 and March 29, 2008. The Company did not experience any significant overall changes in credit terms, collection efforts, credit utilization or delinquency in accounts receivable in the first quarter of 2008.

Inventories increased approximately \$29.8 million, or approximately 9.7%, between December 31, 2007 and March 29, 2008 as a result of increased purchases in the HVAC segment to support future sales levels. The effect of changes in foreign currency exchange rates contributed approximately \$0.9 million to the increase in inventories at March 29, 2008.

Accounts payable increased approximately \$46.4 million, or 24.1%, between December 31, 2007 and March 29, 2008 due primarily to increased inventory levels and the timing of payments. The effect of changes in foreign currency exchange rates contributed approximately \$2.9 million to the increase in accounts payable at March 29, 2008.

Accrued expenses and taxes, net decreased approximately \$16.3 million, or approximately 6.6%, between December 31, 2007 and March 29, 2008 primarily as a result of lower accrued interest relating to the difference in the timing of interest payments during the first quarter of 2008 as compared to amounts accrued.

Changes in certain working capital accounts, as noted above, between December 31, 2007 and March 29, 2008, differ from the changes reflected in the Company's Unaudited Condensed Consolidated Statement of Cash Flows for such period as a result of the specific items mentioned in the four preceding paragraphs and from other non-cash items, including among others, the effect of changes in foreign currency exchange rates.

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Net cash flows provided by operating activities for the first quarter ended March 29, 2008 increased by approximately \$13.8 million to approximately \$0.5 million of net cash provided by operating activities from approximately \$13.3 million of net cash used in operating activities for the first quarter ended March 31, 2007. This increase is primarily due to a reduction in the level of cash used for working capital needs, partially offset by a decrease in net (loss) earnings of approximately \$15.2 million. Net cash flows used in investing activities for the first quarter ended March 29, 2008 decreased by approximately \$14.2 million to net cash used in investing activities of approximately \$8.4 million from approximately \$22.6 million for the first quarter ended March 31, 2007, primarily due to a decrease of approximately \$16.8 million in payments for acquisitions, partially offset by an increase in the level of capital expenditures of approximately \$0.5 million. Net cash flows provided by financing activities for the first quarter ended March 29, 2008 decreased by approximately \$14.2 million to net cash provided by financing activities of approximately \$7.5 million from approximately \$21.7 million for the first quarter ended March 31, 2007 resulting primarily from a decline in net borrowings of approximately \$14.3 million. As discussed earlier, the Company generally uses cash flows from operations, and where necessary borrowings, to finance its capital expenditures and strategic acquisitions, to meet the service requirements of its existing indebtedness and for working capital and other general corporate purposes.

Unrestricted cash and cash equivalents decreased approximately \$0.4 million and \$14.2 million from December 31, 2007 to March 29, 2008 and from December 31, 2006 to March 31, 2007, respectively, principally as a result of the following:

Condensed Consolidated Cash Flows (1)			
For the first quarter ended			
	<u>March 29, 2008</u>		<u>March 31, 2007</u>
	<i>(Dollar amounts in millions)</i>		
Operating Activities:			
Cash flow from operations, net	\$ 11.5	\$	31.7
Change in accounts receivable, net	(4.6)		(7.0)
Change in inventories	(28.8)		(30.1)
Change in prepaids and other current assets	(3.2)		(1.1)
Change in accounts payable	43.4		34.1
Change in accrued expenses and taxes	(19.7)		(41.7)
Investing Activities:			
Capital expenditures	(7.3)		(6.8)
Net cash paid for businesses acquired	---		(16.8)
Proceeds from the sale of property and equipment	0.1		---
Change in restricted cash and marketable securities	---		1.3
Financing Activities:			
Change in borrowings, net	7.4		21.7
Other, net	0.8		0.5
	<u>\$ (0.4)</u>	<u>\$</u>	<u>(14.2)</u>

- (1) Summarized from the Company's Unaudited Condensed Consolidated Statement of Cash Flows for the first quarter ended March 29, 2008 and March 31, 2007 (see the Unaudited Financial Statements included elsewhere herein).

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

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The Company uses EBITDA as both a liquidity and an operating performance measure. Liquidity measure disclosures with respect to EBITDA are provided below. Refer to the Results of Operations section for operating performance measure disclosures with respect to EBITDA and a reconciliation from net earnings (loss) to EBITDA.

EBITDA is defined as net earnings (loss) before interest, taxes, depreciation and amortization expense. EBITDA is not a measure of cash flow under U.S. generally accepted accounting principles ("GAAP") and should not be considered as an alternative or substitute for GAAP cash flow measures such as cash flows from operating, investing and financing activities. EBITDA does not necessarily represent an accurate measure of cash flow performance because it excludes, among other things, capital expenditures, working capital requirements, significant debt service for principal and interest payments, income tax payments and other contractual obligations, which may have a significant adverse impact on a company's cash flow performance thereby limiting its usefulness when evaluating the Company's cash flow performance. The Company uses a significant amount of capital assets and capital expenditures are a significant component of the Company's annual cash expenditures and therefore their exclusion from EBITDA is a material limitation. The Company has significant working capital requirements during the year due to the seasonality of its business, which require significant cash expenditures and therefore its exclusion from EBITDA is a material limitation. The Company has a significant amount of debt and the Company has significant cash expenditures during the year related to principal and interest payments and therefore their exclusion from EBITDA is a material limitation. The Company generally pays significant U.S. federal, state and foreign income taxes each year and therefore its exclusion from EBITDA is a material limitation. As a result, EBITDA should be evaluated in conjunction with net cash from operating, investing and financing activities for a more complete analysis of the Company's cash flow performance, as they include the financial statement impact of these items. Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA does not reflect any cash requirements for replacements. As EBITDA is not defined by GAAP, the Company's definition of EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies thereby limiting its usefulness as a comparative measure. Because of the limitations that EBITDA has as an analytical tool, investors should not consider it in isolation, or as a substitute for analysis of the Company's cash flows as reported under GAAP.

Company management uses EBITDA as a supplementary non-GAAP liquidity measure to allow the Company to evaluate its operating units' cash-generating ability to fund income tax payments, corporate overhead, debt service, capital expenditures and increases in working capital. EBITDA is also used by management to allocate resources for growth among its businesses, to identify possible impairment charges, to evaluate the Company's ability to service its debt and to raise capital for growth opportunities, including acquisitions. In addition, the Company uses EBITDA as a liquidity measure in financial presentations to the Company's Board of Directors, shareholders, various banks participating in Nortek's Credit Facility, note holders and Bond Rating agencies, among others, as a supplemental non-GAAP liquidity measure to assist them in their evaluation of the Company's cash flow performance. The Company uses EBITDA in conjunction with traditional GAAP liquidity measures as part of its overall assessment of cash flow ability and therefore does not place undue reliance on EBITDA as its only measure of cash flow performance.

The Company believes EBITDA is useful for both the Company and investors as it is a commonly used analytical measurement for assessing a company's cash flow ability to service and/or incur additional indebtedness, which eliminates the impact of certain non-cash items such as depreciation and amortization. The Company believes that EBITDA is specifically relevant to the Company due to the Company's leveraged position as well as the common use of EBITDA as a liquidity measure within the Company's industries by lenders, investors, others in the financial community and peer group companies. The Company has included EBITDA as a supplemental liquidity measure, which should be evaluated by investors in conjunction with the traditional GAAP liquidity measures discussed earlier in this Liquidity and Capital Resources section for a complete evaluation of the Company's cash flow performance.

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The following table presents a reconciliation from net cash provided by (used in) operating activities, which is the most directly comparable GAAP liquidity measure, to EBITDA for the first quarter ended March 29, 2008 and March 31, 2007:

	For the first quarter ended	
	March 29, 2008	March 31, 2007
	<i>(Dollar amounts in millions)</i>	
Net cash provided by (used in) operating activities	\$ 0.5	\$ (13.3)
Cash used by working capital and other long-term asset and liability changes	11.0	45.0
Deferred federal income tax benefit (provision)	8.9	(1.3)
Non-cash interest expense, net	(17.0)	(14.5)
Non-cash stock-based compensation expense	---	(0.1)
(Benefit) provision for income taxes	(5.4)	1.7
Interest expense (1)	43.0	42.3
Investment income	(0.2)	(0.4)
EBITDA (2), (3)	<u>\$ 40.8</u>	<u>\$ 59.4</u>

(1) Interest expense for the first quarter ended March 29, 2008 includes cash interest of approximately \$26.0 million and non-cash interest of approximately \$17.0 million. Interest expense for the first quarter ended March 31, 2007 includes cash interest of approximately \$27.8 million and non-cash interest of approximately \$14.5 million.

(2) In the RVP segment, EBITDA for the first quarter ended March 29, 2008 includes net foreign exchange losses of approximately \$0.5 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

In the HTP segment, EBITDA for the first quarter ended March 29, 2008 includes approximately \$0.2 million of fees and expenses incurred in connection with a dispute with a supplier.

In the HVAC segment, EBITDA for the first quarter ended March 29, 2008 includes net foreign exchange gains of approximately \$0.3 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

(3) In the RVP segment, EBITDA for the first quarter ended March 31, 2007 includes an approximate \$0.6 million charge related to the closure of the Company's NuTone, Inc. Cincinnati, Ohio facility, legal and other professional fees and expenses incurred in connection with matters related to certain subsidiaries based in Italy and Poland of approximately \$1.0 million and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

In the HVAC segment, EBITDA for the first quarter ended March 31, 2007 includes a charge of approximately \$1.8 million related to reserves for amounts due from customers and net foreign exchange losses of approximately \$0.2 million related to transactions, including intercompany debt not indefinitely invested in the Company's subsidiaries.

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Inflation, Trends and General Considerations

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

The Company's performance is dependent to a significant extent upon the levels of new residential construction, residential replacement and remodeling and non-residential construction, all of which are affected by such factors as interest rates, credit availability, inflation, consumer confidence and unemployment, among others. The Company's performance in the first quarter of 2008 was adversely impacted as a result of the troubled housing market together with a difficult mortgage industry that resulted in the significant industry wide decline in new housing activity, as well as a negative impact on consumer spending on home remodeling and repair. In the first quarter of 2008 the Company's earnings continued to be challenged by higher commodity costs which have only been partially offset by the Company's strategic cost reduction initiatives. The Company expects these industry and market trends to continue throughout 2008.

The Company has recently experienced an increase in the level of product liability expense in 2008 and 2007, particularly in the RVP segment. The Company is unable to ascertain at this time whether this level of expense will continue at this level, increase or decrease.

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

The Company is subject to the effects of changing prices and for the past several years, the impact of inflation has had a significant adverse effect on its results of operations for the periods presented. In some circumstances, market conditions or customer expectations may prevent the Company from increasing the prices of its products to offset the inflationary pressures that may increase costs in the future. The Company continued to experience higher material costs primarily related to purchases of steel in the first quarter of 2008. Additionally, during the first quarter of 2008, the Company experienced increased freight costs primarily due to increased fuel surcharges as compared to the first quarter of 2007. These cost increases were partially offset by continued strategic sourcing initiatives and improvements in manufacturing efficiency, as well as sales price increases.

As of March 29, 2008, approximately 6.6% of the Company's workforce was subject to various collective bargaining agreements.

A work stoppage at one of the Company's facilities that lasts for a significant period of time could cause the Company to lose sales, incur increased costs and adversely affect its ability to meet customers' needs. A plant shutdown or a substantial modification to a collective bargaining agreement could result in material gains or losses or the recognition of an asset impairment. As agreements expire and until negotiations are completed, the Company does not know whether it will be able to negotiate collective bargaining agreements on the same or more favorable terms as the current agreements or at all and without production interruptions, including labor stoppages. See Note H of the Notes to the Unaudited Financial Statements for further information surrounding work stoppages at the Company's facilities.

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Market Risk

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

A. Interest Rate Risk

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

The Company's investing strategy, to manage interest rate exposure, is to invest in short-term, highly liquid investments and marketable securities. Short-term investments primarily consist of federal agency discount notes, treasury bills and bank issued money market instruments with original maturities of 90 days or less. At March 29, 2008, the fair value of the Company's unrestricted and restricted investments and marketable securities was not materially different from their cost basis.

The Company manages its borrowing exposure to changes in interest rates by optimizing the use of fixed rate debt with extended maturities. At March 29, 2008, approximately 51.8% of the carrying values of the Company's long-term debt was at fixed interest rates. The remaining portion of the Company's long-term debt is at variable interest rates. Based upon interest rates in effect at March 29, 2008, an overall unfavorable change in interest rates of 100 basis points would result in an additional charge to interest expense for the remaining nine months of 2008 of approximately \$7.4 million.

B. Foreign Currency Risk

The Company's results of operations are affected by fluctuations in the value of the U.S. dollar as compared to the value of currencies in foreign markets primarily related to changes in the Euro, the Canadian Dollar and the British Pound. In the first quarter of 2008, the net impact of foreign currency changes was not material to the Company's financial condition or results of operations. The impact of foreign currency changes related to translation resulted in an increase in stockholder's investment of approximately \$0.4 million for the first quarter ended March 29, 2008. Additionally, the impact of foreign currency changes related to transactions resulted in a decrease in foreign exchange losses recorded in selling, general and administrative expense, net of approximately \$0.2 million for the first quarter ended March 29, 2008 as compared to the same period of 2007. The Company manages its exposure to foreign currency exchange risk principally by trying to minimize the Company's net investment in foreign assets, including, the use of strategic short and long-term borrowings at the foreign subsidiary level. Consistent with this strategy, notes payable and other short-term obligations at March 29, 2008 consist primarily of short-term borrowings by certain of the Company's foreign subsidiaries. The Company generally does not enter into derivative financial instruments to manage foreign currency exposure. At March 29, 2008, the Company did not have any significant outstanding foreign currency hedging contracts.

C. Commodity Pricing Risk

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

The Company generally does not enter into derivative financial instruments to manage commodity-pricing exposure. At March 29, 2008, the Company did not have any material outstanding commodity forward contracts.

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Forward-Looking Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Quantitative and qualitative disclosure about market risk is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk.

Item 4. Controls and Procedures

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

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company and its subsidiaries, affiliates or significant shareholders may from time to time, in their sole discretion, purchase, repay, redeem or retire any of the Company's outstanding debt (including publicly issued debt), in privately negotiated or open market transactions, by tender offer or otherwise.

Item 6. Exhibits

The items marked with an asterisk are filed herewith.

- * 10.1 THL-Nortek Investors, LLC Amended and Restated Limited Liability Company Agreement dated as of April 16, 2008.
- * 31.1 Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- * 31.2 Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- * 32 Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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

NTK HOLDINGS, INC.
(Registrant)

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

May 12, 2008