

SUPPLEMENTARY PROSPECTUS DATED 9 AUGUST 2016

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice as soon as possible from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) ("FSMA") if you are in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

The distribution of this document (the "**Second Supplementary Prospectus**"), the supplementary prospectus dated 28 July 2016 (the "**First Supplementary Prospectus**"), the prospectus dated 6 July 2016 (the "**Original Prospectus**") and/or the Provisional Allotment Letters and/or the transfer of the Nil Paid Rights, the Fully Paid Rights and/or the Melrose Shares, through CREST or otherwise, into jurisdictions outside the United Kingdom may be restricted by law. Persons outside the United Kingdom into whose possession this Second Supplementary Prospectus, the First Supplementary Prospectus and/or the Original Prospectus come should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction.

Subject to the restrictions set out below, if you have sold or otherwise transferred all of your Existing Melrose Shares (other than ex-rights) held in certificated form before 8.00 a.m. on 9 August 2016 (the "**ex-rights date**"), you should forward a copy of this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus and send any Provisional Allotment Letter (duly renounced), if and when received, as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. None of these documents should, however, be distributed, forwarded or transmitted in or into any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States and any of the Excluded Territories (subject to certain exceptions).

If you have sold or otherwise transferred only part of your holding of Existing Melrose Shares (other than ex-rights) held in certificated form before the ex-rights date, you should immediately consult the stockbroker, bank or other agent through whom the sale or transfer was effected and refer to the instructions regarding split applications in Part XI (*Terms and Conditions of the Rights Issue*) of the Original Prospectus and in the Provisional Allotment Letter. If you have sold or otherwise transferred all or some of your Existing Melrose Shares (other than ex-rights) held in uncertificated form before the ex-rights date, a claim transaction will automatically be generated by Euroclear, which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

In accordance with section 87G of FSMA, this Second Supplementary Prospectus has been published following the publication by Nortek of its unaudited consolidated financial statements, prepared in accordance with US GAAP, for the second quarter ended 2 July 2016 and the first half ended 2 July 2016. This Second Supplementary Prospectus, which comprises a supplementary prospectus relating to the Melrose Shares prepared in accordance with the Prospectus Rules made under section 73A of FSMA, has been approved by the FCA in accordance with sections 87A and 87G of FSMA and made available, free of charge, to the public in accordance with rule 3.2 of the Prospectus Rules.

This Second Supplementary Prospectus is supplemental to and must be read in conjunction with the First Supplementary Prospectus and the Original Prospectus. Prospective investors should read the whole of this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus and any documents incorporated therein by reference. In particular, your attention is drawn to the factors described in the "Risk Factors" section of the Original Prospectus.



Melrose Industries PLC

(incorporated under the Companies Act 2006 and registered in England and Wales with registered number 9800044)

Proposed Acquisition of Nortek

12 for 1 Rights Issue of 1,741,612,236 New Melrose Shares at 95 pence per New Melrose Share to raise approximately £1,655 million

Admission of 1,741,612,236 New Melrose Shares to the premium segment of the Official List and to trading on the London Stock Exchange main market for listed securities and proposed Re-admission or transfer of the Melrose Shares to the standard segment of the Official List

Investec Bank plc

Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Joint Underwriter

J.P. Morgan Cazenove

Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Joint Underwriter

BofA Merrill Lynch

Joint Bookrunner and Joint Underwriter

Nomura International PLC

Lead Financial Adviser

Admission of the New Melrose Shares (issued in connection with the Rights Issue) to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities became effective and dealings (for normal settlement) in the New Melrose Shares commenced on the London Stock Exchange, nil paid, at 8.00 a.m. on 9 August 2016.

The Melrose Shares (including the New Melrose Shares, nil paid) are currently admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. As the Acquisition constitutes a reverse takeover under the Listing Rules, upon Completion, the listing of Melrose Shares on the premium segment of the Official List will be cancelled. Applications will be made to the UKLA for the Melrose Shares (comprising the Existing Melrose Shares and the New Melrose Shares) to be re-admitted to the standard segment of the Official List and to the London Stock Exchange for the re-admission of the Melrose Shares to trading of the Melrose Shares on its main market for listed securities.

It is currently expected that Re-admission will become effective post Completion at 8.00 a.m. on 31 August 2016 (and in any case no earlier than 20 Business Days from the date of the General Meeting) (whereupon an announcement will be made by the Company to a Regulatory Information Service).

Should Completion not occur, the listing of the Melrose Shares will nevertheless be transferred from the premium segment to the standard segment of the Official List on 10 October 2016, whereupon an announcement will be made by the Company to a Regulatory Information Service.

A STANDARD LISTING AFFORDS INVESTORS IN MELROSE A LOWER LEVEL OF REGULATORY PROTECTION THAN THAT AFFORDED TO INVESTORS IN COMPANIES WHOSE SECURITIES ARE ADMITTED TO THE PREMIUM SEGMENT OF THE OFFICIAL LIST, WHICH ARE SUBJECT TO ADDITIONAL OBLIGATIONS UNDER THE LISTING RULES.

IT SHOULD BE NOTED THAT, UPON THE MELROSE SHARES BEING RE-ADMITTED OR TRANSFERRED TO THE STANDARD SEGMENT OF THE OFFICIAL LIST, NEITHER THE UKLA NOR THE LONDON STOCK EXCHANGE WILL HAVE THE AUTHORITY TO (AND WILL NOT) MONITOR MELROSE'S COMPLIANCE WITH ANY OF THE LISTING RULES OR THE DISCLOSURE REQUIREMENTS AND TRANSPARENCY RULES WHICH MELROSE HAS INDICATED THAT IT INTENDS TO COMPLY WITH ON A VOLUNTARY BASIS, NOR TO IMPOSE SANCTIONS IN RESPECT OF ANY FAILURE BY MELROSE TO SO COMPLY.

See the section of the Original Prospectus entitled "*Important Information*" for further details on the consequences of a Standard Listing.

The Underwriters may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Melrose Shares and/or related instruments for their own account for the purpose of hedging their commitments under the Underwriting Agreement. Except as required by applicable law or regulation, the Underwriters do not propose to make any public disclosure in relation to such transactions.

The latest time and date for acceptance of, and payment in full for, the New Melrose Shares by holders of Nil Paid Rights is 11.00 a.m. on 23 August 2016. The procedures for delivery of the Nil Paid Rights, acceptance and payment are set out in Part XI (*Terms and Conditions of the Rights Issue*) of the Original Prospectus and, for Qualifying Non-CREST Shareholders only, also in the Provisional Allotment Letter. Qualifying CREST Shareholders should refer to paragraph 5 of Part XI (*Terms and Conditions of the Rights Issue*) of the Original Prospectus.

Qualifying Non-CREST Shareholders should retain this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus for reference pending receipt of a Provisional Allotment Letter, which were despatched to Qualifying Non-CREST Shareholders on 8 August 2016. Qualifying CREST Shareholders should note that they will receive no further written communication from the Company in respect of the Rights Issue. They should accordingly retain this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus for, among other things, details of the action they should take in respect of the Rights Issue. Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus and the Rights Issue. Holdings of Melrose Shares in certificated and uncertificated form have been treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares are not transferable, except in accordance with, and the distribution of this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus is subject to, the restrictions set out in paragraph 7 of Part XI (*Terms and Conditions of the Rights Issue*) of the Original Prospectus in relation to the United States and the Excluded Territories. No action has been taken by the Company, the Sponsors or the Underwriters that would permit an offer of the New Melrose Shares or rights thereto or possession or distribution of this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus or any other offering or publicity material or the Provisional Allotment Letters, the Nil Paid Rights or the Fully Paid Rights in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

This Second Supplementary Prospectus has been prepared to comply with the requirements of English law, the Listing Rules, the Prospectus Rules and the rules of the London Stock Exchange and information disclosed may not be the same as that

which would have been disclosed if this Second Supplementary Prospectus had been prepared in accordance with the laws of other jurisdictions outside England.

Despite any other provision of this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus or the Provisional Allotment Letter, the Company reserves the right to permit any shareholder to take up his rights if the Company in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Melrose Shares have not been and will not be registered under the relevant federal laws or laws of any state, province or territory of the United States (including the US Securities Act) or the Excluded Territories or under any securities laws of any state or other jurisdiction of the United States or any Excluded Territory and may not be offered, sold, taken up, exercised, resold, pledged, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from, or in a transaction not subject to the registration requirements of, the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. Accordingly, this Second Supplementary Prospectus, the First Supplementary Prospectus and/or the Original Prospectus do not constitute an offer to sell, or solicitation of an offer to buy or to take up entitlements to, Nil Paid Rights, Fully Paid Rights, New Melrose Shares or Provisional Allotment Letters in the United States (unless an exemption from registration under the US Securities Act is available) or in any Excluded Territory (subject to certain exceptions). The Provisional Allotment Letters, Nil Paid Rights, Fully Paid Rights and the New Melrose Shares may at the sole discretion of the Company be made available by the Company in the United States to Eligible US Holders. Any recipient of Provisional Allotment Letters, Nil Paid Rights, Fully Paid Rights or New Melrose Shares pursuant to transactions that are exempt from the registration requirements of the US Securities Act will be required to make such acknowledgements and representations to and agreements with the Company, as the Company may require to establish that they are Eligible US Holders.

None of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters, the New Melrose Shares, this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus or any other offering document has been approved or disapproved by the SEC, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Rights Issue or the accuracy or adequacy of this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus. Any representation to the contrary is a criminal offence in the United States.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the New Melrose Shares, the Nil Paid Rights, the Fully Paid Rights or the Provisional Allotment Letters within the United States by a dealer that is participating in the Rights Issue may violate the registration requirements of the US Securities Act.

All Qualifying Shareholders with an address in, or who are located in, the United States or any of the Excluded Territories and any person (including, without limitation, a custodian, nominee, agent or trustee) who has a contractual or legal obligation to forward this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus or any Provisional Allotment Letter to any jurisdiction outside the United Kingdom should read paragraph 7 of Part XI (*Terms and Conditions of the Rights Issue*) of the Original Prospectus.

Each of Investec Bank plc, J.P. Morgan Securities plc (which conducts its investment banking activities as J.P. Morgan Cazenove) ("**J.P. Morgan Cazenove**"), Merrill Lynch International ("**BofA Merrill Lynch**") and Nomura International PLC, each of which is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the PRA and the FCA in the United Kingdom, and J.P. Morgan Limited and Evercore Partners International LLP, each of which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively for the Company and no one else in connection with this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus, the Acquisition or the Rights Issue and will not regard any other person (whether or not a recipient of this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus) as their respective clients in relation to this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus, the Acquisition or the Rights Issue, save for any responsibility which may arise under FSMA or the regulatory regime established thereunder, and accordingly will not be responsible to anyone other than the Company for providing the protections afforded to respective clients of Investec Bank plc, J.P. Morgan Cazenove, BofA Merrill Lynch, Nomura International PLC, J.P. Morgan Limited and Evercore Partners International LLP as applicable, or for providing advice in connection with the Acquisition or the Rights Issue, the contents of this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus or any other transaction, arrangement or other matter referred to in this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on Investec Bank plc, J.P. Morgan Cazenove or J.P. Morgan Limited under FSMA or the regulatory regime established thereunder: (i) none of Investec Bank plc, J.P. Morgan Cazenove, BofA Merrill Lynch, Nomura International PLC, J.P. Morgan Limited or Evercore Partners International LLP accepts any responsibility whatsoever and makes no warranty or representation, express or implied, in relation to the contents of this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus, including their accuracy, completeness or verification or regarding the legality of any investment in the Nil Paid Rights, the Fully Paid Rights or the New Melrose Shares by any person under the laws applicable to such person or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Nil Paid Rights, the Fully Paid Rights, the Melrose Shares, the Acquisition or the Rights Issue; and (ii) each of Investec Bank plc, J.P. Morgan Cazenove, BofA Merrill Lynch, Nomura International PLC, J.P. Morgan Limited and Evercore Partners International LLP

accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise be found to have in respect of this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus or any such statement.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Rights Issue, including the merits and risks involved.

None of the Company or the Underwriters, or any of their respective representatives, is making any representation to any offeree or purchaser of the Nil Paid Rights, the Fully Paid Rights or the New Melrose Shares regarding the legality of an investment in the Nil Paid Rights, the Fully Paid Rights or the New Melrose Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Nil Paid Rights, the Fully Paid Rights or the New Melrose Shares.

Investors also acknowledge that: (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus or their investment decision; (ii) they have relied only on the information contained in this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus; and (iii) that no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the Nil Paid Rights, the Fully Paid Rights or the New Melrose Shares (other than as contained in this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Underwriters.

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AMENDMENTS TO THE SUMMARY CONTAINED IN THE ORIGINAL PROSPECTUS

This Second Supplementary Prospectus further amends the section of the Original Prospectus entitled “Summary”, as amended pursuant to the First Supplementary Prospectus, with the addition of the following information to Element B.7.

Section B—ISSUER																																																																							
Element	Disclosure Requirements	Disclosure																																																																					
B.7	Selected historical financial information	On 8 August 2016, Nortek published its unaudited consolidated financial statements, prepared in accordance with US GAAP, for the second quarter ended 2 July 2016 and the first half ended 2 July 2016 (the “Nortek 2016 Q2 Results”). The selected financial information set out below has been extracted without material adjustment from the Nortek 2016 Q2 Results, prepared in accordance with US GAAP: Condensed consolidated income statement <table> <tr> <th></th><th colspan="2">For the second quarter ended</th></tr> <tr> <th></th><th>2 July 2016</th><th>27 June 2015</th></tr> <tr> <th></th><th>\$m</th><th>\$m</th></tr> <tr> <th></th><th>Unaudited</th><th>Unaudited</th></tr> <tr> <td>Net sales</td><td>685.1</td><td>703.9</td></tr> <tr> <td>Operating earnings</td><td>52.8</td><td>34.7</td></tr> <tr> <td>Net interest expense</td><td>(23.4)</td><td>(24.9)</td></tr> <tr> <td>Earnings / (loss) before provision / (benefit) for income taxes</td><td>29.4</td><td>(5.0)</td></tr> <tr> <td>Net earnings / (loss)</td><td>18.4</td><td>(2.3)</td></tr> <tr> <td>Basic earnings / (loss) per share</td><td>\$1.15</td><td>\$(0.14)</td></tr> <tr> <td>Diluted earnings / (loss) per share</td><td>\$1.14</td><td>\$(0.14)</td></tr> </table> Condensed consolidated balance sheet <table> <tr> <th></th><th>As at 2 July 2016</th><th>As at 31 December 2015⁽¹⁾</th></tr> <tr> <th></th><th>\$m</th><th>\$m</th></tr> <tr> <th></th><th>Unaudited</th><th>Unaudited Restated</th></tr> <tr> <td>Total current assets</td><td>842.5</td><td>771.4</td></tr> <tr> <td>Total property and equipment, net</td><td>229.9</td><td>229.0</td></tr> <tr> <td>Other assets</td><td>1,102.5</td><td>1,130.0</td></tr> <tr> <td>Total assets</td><td>2,174.9</td><td>2,130.4</td></tr> <tr> <td>Total current liabilities</td><td>513.8</td><td>491.1</td></tr> <tr> <td>Other liabilities</td><td>265.3</td><td>255.4</td></tr> <tr> <td>Notes, mortgage notes and obligations payable, less current maturities</td><td>1,359.9</td><td>1,371.6</td></tr> <tr> <td>Total stockholders’ investment</td><td>35.9</td><td>12.3</td></tr> <tr> <td>Total liabilities and stockholders’ investment</td><td>2,174.9</td><td>2,130.4</td></tr> </table> Note: (1) Restated to reflect the reclassification of approximately \$13.5 million of unamortised debt issuance costs from other long term assets to notes, mortgage notes and obligations payable, less current maturities, in accordance with ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at 18 June 2015 EITF Meeting (SEC Update), which was issued in August 2015 and adopted by the Nortek Group retrospectively in the first quarter of 2016.		For the second quarter ended			2 July 2016	27 June 2015		\$m	\$m		Unaudited	Unaudited	Net sales	685.1	703.9	Operating earnings	52.8	34.7	Net interest expense	(23.4)	(24.9)	Earnings / (loss) before provision / (benefit) for income taxes	29.4	(5.0)	Net earnings / (loss)	18.4	(2.3)	Basic earnings / (loss) per share	\$1.15	\$(0.14)	Diluted earnings / (loss) per share	\$1.14	\$(0.14)		As at 2 July 2016	As at 31 December 2015 ⁽¹⁾		\$m	\$m		Unaudited	Unaudited Restated	Total current assets	842.5	771.4	Total property and equipment, net	229.9	229.0	Other assets	1,102.5	1,130.0	Total assets	2,174.9	2,130.4	Total current liabilities	513.8	491.1	Other liabilities	265.3	255.4	Notes, mortgage notes and obligations payable, less current maturities	1,359.9	1,371.6	Total stockholders’ investment	35.9	12.3	Total liabilities and stockholders’ investment	2,174.9	2,130.4
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Section B—ISSUER		
Element	Disclosure Requirements	Disclosure
		On 8 August 2016, Nortek also published a press release containing certain commentary on the Nortek 2016 Q2 Results, extracts of which are set out below: <i>“Net sales decreased 2.7% to \$685.1 million, from \$703.9 million in the second quarter of 2015. Excluding acquisitions, divestitures and the impact of foreign exchange translation, net sales decreased 2.1%.</i> <i>“[US] GAAP operating earnings were \$52.8 million, compared with \$34.7 million in the second quarter of 2015. Excluding the impact of acquisitions and divestitures, operating earnings were \$53.5 million, compared with \$37.5 million in the second quarter of 2015.”</i> <i>“[US] GAAP net earnings were \$18.4 million, or \$1.14 per diluted share, compared with a [US] GAAP net loss of \$2.3 million, or \$0.14 loss per diluted share, in the second quarter of 2015.</i> <i>“Free cash flow, which is defined as net cash from operating activities minus capital expenditures, was \$50.3 million, compared with negative \$35.5 million in the second quarter of 2015.</i> <i>“As of July 2, 2016, Nortek had \$39.6 million of unrestricted cash and cash equivalents on its balance sheet, compared with \$24.6 million on December 31, 2015.</i> <i>“As of July 2, 2016, Nortek had \$35.0 million of borrowings outstanding under its ABL facility. Nortek had \$44.0 million of borrowings outstanding under its ABL facility on December 31, 2015, and had \$29.0 million of borrowings outstanding under its ABL facility on August 3, 2016.”</i>

IMPORTANT INFORMATION

1. GENERAL

No person has been authorised to give any information or make any representations other than those contained in this Second Supplementary Prospectus, the First Supplementary Prospectus and/or the Original Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by the Underwriters. Neither the delivery of this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus nor any subscription or sale made hereunder or thereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Second Supplementary Prospectus or that the information in this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus is correct as at any time subsequent to its respective date.

The contents of this Second Supplementary Prospectus, the First Supplementary Prospectus, the Original Prospectus or any subsequent communication from the Company or any financial adviser or any of their respective affiliates, officers, directors, employees or agents is not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

Any reproduction or distribution of this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus, in whole or in part, and any disclosure of their contents, or use of any information contained in this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus for any purpose other than considering an investment in the Nil Paid Rights, the Fully Paid Rights or the New Melrose Shares is prohibited. By accepting delivery of this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus, each offeree of the Nil Paid Rights, the Fully Paid Rights and/or the New Melrose Shares agrees to the foregoing.

Melrose is a public limited company incorporated under the laws of England and Wales. All of the Melrose Directors are citizens or residents of countries other than the United States. Substantially all of the assets of such persons and a significant proportion of the assets of the Company are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon such persons or the Company, or to enforce against them judgments of US courts, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States. The United States and the United Kingdom do not have a treaty providing for the reciprocal recognition of judgments (other than arbitral awards) in civil and commercial matters. Consequently, a final and conclusive judgment by any federal or state court of the United States based on civil liability, whether or not predicated solely upon US federal securities laws, would not automatically be enforceable in England and Wales. In addition, it is doubtful whether the courts of England and Wales would accept jurisdiction and impose civil liability if proceedings were commenced in England or Wales in an original action predicated solely upon US federal securities laws.

Without limitation, the contents of the websites of the Company or Nortek do not form part of this Second Supplementary Prospectus, the First Supplementary Prospectus or the Original Prospectus.

2. CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements contained in this Second Supplementary Prospectus, including those in the part headed "Amendments to the summary contained in the Original Prospectus" and Annex 1 (*Nortek 2016 Q2 Results*) of this Second Supplementary Prospectus, constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "continues", "estimates", "plans", "prepares", "anticipates", "expects", "intends", "aims", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. Investors should specifically consider the factors identified in this Second Supplementary Prospectus, the First Supplementary Prospectus and the Original Prospectus which could cause actual results to differ before making an investment decision. Undue reliance should not be placed on any forward-looking statements as such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Nortek, Melrose, the Nortek Group, the Melrose Group and/or the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Undue reliance should not be placed on any forward-looking statements as such forward-looking statements are based on numerous assumptions regarding Nortek's, Melrose's, the

Nortek Group's, the Melrose Group's and/or the Enlarged Group's present and future business strategies and the environment in which Nortek, Melrose, the Nortek Group, the Melrose Group and/or the Enlarged Group will operate in the future. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are the ability to combine successfully the business of Melrose and Nortek and to realise expected synergies from that potential combination, changes in the global political, economic and/or business sphere, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions. Such risks, uncertainties and other factors are set out more fully in the section of the Original Prospectus headed "Risk Factors" and include, among others: risks relating to commodity prices, risks relating to the economic conditions of the markets in which the Melrose Group and Nortek Group operate, challenges in integrating the businesses of the Melrose Group and the Nortek Group and risks relating to the possible volatility of the price of Melrose Shares. Any forward-looking statements contained within this Second Supplementary Prospectus speak only as at the date of this Second Supplementary Prospectus. Except as required by the FCA, the London Stock Exchange or applicable law (including as may be required by the Prospectus Rules, Listing Rules and the Disclosure Requirements and Transparency Rules), Melrose expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Second Supplementary Prospectus to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Forward-looking statements contained in this Second Supplementary Prospectus do not in any way seek to qualify the working capital statement contained in paragraph 11 of Part XII (*Additional Information*) of the Original Prospectus.

PART I
SUPPLEMENTARY INFORMATION

1. HISTORICAL FINANCIAL INFORMATION OF THE NORTEK GROUP

On 6 July 2016, Melrose published the Original Prospectus. Paragraph 5 (*Principal Terms of the Rights Issue*) of Part I (*Information on the Acquisition and the Rights Issue*) of the Original Prospectus explained that a supplementary prospectus would be issued after publication of the Nortek 2016 Q2 Results.

On 8 August 2016, Nortek published the Nortek 2016 Q2 Results, which contain the unaudited consolidated financial statements of the Nortek Group for the second quarter ended 2 July 2016 and the first half ended 2 July 2016, prepared in accordance with US GAAP and which are set out in full in Annex 1 (*Nortek 2016 Q2 Results*) to this Second Supplementary Prospectus.

2. UPDATES ON THE ACQUISITION AND RIGHTS ISSUE

As announced by Melrose on 8 August 2016, the Window Shop Deadline expired at 11.59 p.m. (New York time) on 6 August 2016, without the occurrence of a Superior Proposal Termination Event.

Consequently, the Qualifying Non-CREST Shareholders (subject to certain exceptions) were sent a Provisional Allotment Letter on 8 August 2016 and Qualifying CREST Shareholders (subject to certain exceptions) received a credit to their appropriate stock accounts in CREST as soon as practicable after 8.00 a.m. on 9 August 2016, in each case in respect of the Nil Paid Rights to which they were entitled. Admission of the New Melrose Shares became effective and dealings (for normal settlement) in the New Melrose Shares commenced on the London Stock Exchange, nil paid, at 8.00 a.m. on 9 August 2016. The Nil Paid Rights so credited in CREST have been enabled for settlement by Euroclear.

The completion of the Tender Offer remains subject to the satisfaction (or waiver, where applicable) of the Tender Offer Conditions set out in paragraph 3 (*Terms of the Acquisition*) of Part I (*Information on the Acquisition and the Rights Issue*) of the Original Prospectus, save for the satisfaction of sub-paragraphs (c), (j) and (k) thereof.

PART II ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Company and the Melrose Directors, whose names appear at paragraph 1 of Part IX (*Directors, Corporate Governance and Employees*) of the Original Prospectus, accept responsibility for the information contained in this Second Supplementary Prospectus. To the best of the knowledge of the Company and the Melrose Directors (having taken all reasonable care to ensure that such is the case), the information contained in this Second Supplementary Prospectus is in accordance with the facts and contains no omission that is likely to affect its import.

2. CONSENTS

- 2.1 Investec Bank plc, acting as Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Joint Underwriter to the Company, has given and has not withdrawn its written consent to the inclusion in this Second Supplementary Prospectus of the references to its name in the form and context in which they are included.
- 2.2 J.P. Morgan Cazenove, acting as Joint Sponsor, Joint Global Co-ordinator, Joint Bookrunner and Joint Underwriter to the Company, has given and has not withdrawn its written consent to the inclusion in this Second Supplementary Prospectus of the references to its name in the form and context in which they are included.
- 2.3 J.P. Morgan Limited, acting as joint financial adviser to the Company, has given and has not withdrawn its written consent to the inclusion in this Second Supplementary Prospectus of the references to its name in the form and context in which they are included.
- 2.4 BofA Merrill Lynch, acting as Joint Bookrunner, Joint Underwriter and joint financial adviser to the Company, has given and has not withdrawn its written consent to the inclusion in this Second Supplementary Prospectus of the references to its name in the form and context in which they are included.
- 2.5 Nomura International PLC, acting as lead financial adviser to the Company, has given and has not withdrawn its written consent to the inclusion in this Second Supplementary Prospectus of the references to its name in the form and context in which they are included.
- 2.6 Evercore Partners International LLP, acting as adviser to the Company on the Rights Issue, has given and not withdrawn its written consent to the inclusion in this Second Supplementary Prospectus of the references to its name in the form and context in which they are included.

3. WITHDRAWAL RIGHTS

- 3.1 Qualifying Shareholders are reminded of their statutory withdrawal rights in respect of the Rights Issue under section 87Q(4) of FSMA, which arise upon publication of this Second Supplementary Prospectus.
- 3.2 Qualifying Shareholders wishing to exercise statutory withdrawal rights must do so by lodging a written notice of withdrawal (which shall not include notice sent by facsimile or any other form of electronic communication), which must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member with the Receiving Agent by post or by hand (during normal business hours only) at Equiniti Limited, Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, so as to be received no later than close of business on 11 August 2016 (“**Withdrawal Deadline**”), being two Business Days after the date on which this Second Supplementary Prospectus was published. Notice of withdrawal given by any other means or which is deposited with or received by the Receiving Agent after the Withdrawal Deadline will not constitute a valid withdrawal. The Company may treat as valid any notice of withdrawal received through the post not later than 8.00 a.m. on 12 August 2016 and which bears a legible postmark on its envelope dated not later than the Withdrawal Deadline.
- 3.3 Following the valid exercise of statutory withdrawal rights, application moneys will be returned by post to relevant Qualifying Shareholders at their own risk and without interest to the address set out in the Provisional Allotment Letter and/or the Receiving Agent will refund the amount paid by a Qualifying

CREST Shareholder by way of a CREST payment, without interest, as applicable within 14 days of such exercise of statutory withdrawal rights. Interest earned on such moneys will be retained for the benefit of the Company. Furthermore, the exercise of withdrawal rights will not be permitted after payment by the relevant Qualifying Shareholder of its subscription amount in full and the allotment of the New Melrose Shares to such Qualifying Shareholder becoming unconditional. In such circumstances, Qualifying Shareholders are advised to consult their professional advisers including their legal advisers as this may be a matter of law. The provisions of this paragraph 3 are without prejudice to the statutory rights of Qualifying Shareholders. In such event investors are advised to seek independent legal advice. Provisional allotments of entitlements to New Melrose Shares which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Melrose Shares will be subject to the provisions of paragraph 6 (*Procedure in respect of rights not taken up*) of Part XI (*Terms and conditions of the Rights Issue*) of the Original Prospectus as if the entitlements had not been validly taken up.

- 3.4 Should any Qualifying Shareholders have any queries about their statutory withdrawal rights, they should contact the Shareholder Helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except public holidays in England and Wales) on 0333 207 6392 (from within the UK) and + 44 121 415 0966 (from outside the UK). Network providers' costs may vary. Calls to the Shareholder Helpline from outside the UK will be charged at the applicable international rates. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. For legal reasons, the Shareholder Helpline will be unable to give advice on the merits of the Rights Issue or to provide financial, tax or investment advice.

4. SOURCES AND BASES OF SELECTED FINANCIAL INFORMATION

Unless otherwise stated, financial information relating to the Nortek Group in this Second Supplementary Prospectus has been extracted (without material adjustment) from the Nortek 2016 Q2 Results, prepared in accordance with US GAAP.

5. DOCUMENTS AVAILABLE FOR INSPECTION

- 5.1 In addition to the documents set out in paragraph 21 (*Documents available for inspection*) of Part XII (*Additional Information*) of the Original Prospectus and paragraph 5 (*Documents available for inspection*) of Part II (*Additional Information*) of the First Supplementary Prospectus, copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sundays and UK public holidays excepted) at: (i) the registered office of the Company (being 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT); and (ii) the offices of Simpson Thacher & Bartlett LLP (being CityPoint, One Ropemaker Street, London EC2Y 9HU) from the date of this Second Supplementary Prospectus up to and including the date of Re-admission:
- (a) the Nortek 2016 Q2 Results, as set out in Annex 1 (*Nortek 2016 Q2 Results*) to this Supplementary Prospectus;
 - (b) the consent letters referred to in paragraph 2 above; and
 - (c) this Second Supplementary Prospectus.
- 5.2 The Second Supplementary Prospectus may also be viewed via the National Storage Mechanism and, subject to certain restrictions regarding Overseas Shareholders, on the Company's website at www.melroseplc.net.

6. DEFINITIONS

Capitalised terms contained in this Second Supplementary Prospectus and not otherwise defined herein shall have the meanings given to such terms in the Original Prospectus.

Dated: 9 August 2016

ANNEX 1
NORTEK 2016 Q2 RESULTS

The Nortek historical financial information contained in this Annex 1 (*Nortek 2016 Q2 Results*) has been extracted without material adjustment from the Form 10-Q filed with the SEC by Nortek on 8 August 2016 and which contains the unaudited consolidated financial statements of the Nortek Group for the second quarter ended 2 July 2016 and the first half ended 2 July 2016. It therefore does not reflect any transactions and events that may have occurred after that date. The Nortek historical financial information contained in this Annex 1 (*Nortek 2016 Q2 Results*) has been prepared in accordance with US GAAP.

Capitalised terms used in the Nortek historical financial information contained in this Annex 1 (*Nortek 2016 Q2 Results*) shall have the meanings given to such terms in this Annex 1 (*Nortek 2016 Q2 Results*). References to “we” and “our” should be read as references to “Nortek” and “Nortek’s”, respectively.

Item 1. Financial Statements

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

	<u>July 2, 2016</u>	<u>December 31, 2015</u>
Assets		
Current Assets:		
Unrestricted cash and cash equivalents	\$ 39.6	\$ 24.6
Restricted cash	2.5	0.3
Accounts receivable, less allowances of \$3.2 million and \$3.6 million, respectively	383.9	340.0
Inventories:		
Raw materials	110.8	103.9
Work in process	30.0	26.1
Finished goods	234.2	238.1
	<u>375.0</u>	<u>368.1</u>
Prepaid expenses	18.1	19.3
Other current assets	12.6	10.9
Tax refunds receivable	10.8	8.2
Total current assets	<u>842.5</u>	<u>771.4</u>
 Property and Equipment, at Cost:		
Land	17.0	16.9
Buildings and improvements	112.6	108.9
Machinery and equipment	362.0	339.5
	<u>491.6</u>	<u>465.3</u>
Less accumulated depreciation	261.7	236.3
Total property and equipment, net	<u>229.9</u>	<u>229.0</u>
 Other Assets:		
Goodwill	505.5	505.5
Intangible assets, less accumulated amortization of \$313.0 million and \$278.4 million, respectively	576.7	609.1
Restricted investments	0.8	0.9
Other assets	19.5	14.5
	<u>1,102.5</u>	<u>1,130.0</u>
Total Assets	<u><u>\$ 2,174.9</u></u>	<u><u>\$ 2,130.4</u></u>

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

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
(Continued)
(Dollar amounts in millions, except shares data)

	<u>July 2, 2016</u>	<u>December 31, 2015</u>
Liabilities and Stockholders' Investment		
Current Liabilities:		
Short-term bank obligations	\$ 0.2	\$ 0.5
Current maturities of long-term debt	7.0	6.9
Accounts payable	282.5	269.2
Accrued expenses, taxes, and deferred revenue	224.1	214.5
Total current liabilities	<u>513.8</u>	<u>491.1</u>
Other Liabilities:		
Deferred income taxes	82.8	76.9
Other	182.5	178.5
	<u>265.3</u>	<u>255.4</u>
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities	<u>1,359.9</u>	<u>1,371.6</u>
Commitments and Contingencies (Note G)		
Stockholders' Investment:		
Preferred stock, \$0.01 par value, 10,000,000 authorized shares; none issued and outstanding at July 2, 2016 and December 31, 2015	—	—
Common stock, \$0.01 par value, 90,000,000 authorized shares; 17,107,057 shares and 17,041,710 shares issued at July 2, 2016 and December 31, 2015, respectively	0.2	0.2
Additional paid-in capital	260.9	256.8
Accumulated deficit	(122.8)	(143.8)
Accumulated other comprehensive loss	(43.4)	(42.5)
Less: Treasury stock at cost, 794,855 shares and 782,670 shares at July 2, 2016 and December 31, 2015, respectively	(59.0)	(58.4)
Total stockholders' investment	<u>35.9</u>	<u>12.3</u>
Total Liabilities and Stockholders' Investment	<u>\$ 2,174.9</u>	<u>\$ 2,130.4</u>

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

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

	For the second quarter ended		For the first six months ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
	<i>(Dollar amounts in millions, except per share data)</i>			
Net Sales	\$ 685.1	\$ 703.9	\$ 1,299.0	\$ 1,276.6
Costs and Expenses:				
Cost of revenues	472.5	505.8	898.9	911.7
Selling, general and administrative expense, net	142.3	147.3	283.8	290.6
Amortization of intangible assets	17.5	16.1	34.6	31.9
	<u>632.3</u>	<u>669.2</u>	<u>1,217.3</u>	<u>1,234.2</u>
Operating earnings	52.8	34.7	81.7	42.4
Net interest expense	(23.4)	(24.9)	(47.1)	(52.1)
Loss from debt retirement	—	(14.8)	—	(14.8)
Earnings (loss) before provision (benefit) for income taxes	29.4	(5.0)	34.6	(24.5)
Provision (benefit) for income taxes	11.0	(2.7)	13.6	(8.3)
Net earnings (loss)	<u>\$ 18.4</u>	<u>\$ (2.3)</u>	<u>\$ 21.0</u>	<u>\$ (16.2)</u>
Basic earnings (loss) per share	<u>\$ 1.15</u>	<u>\$ (0.14)</u>	<u>\$ 1.31</u>	<u>\$ (1.02)</u>
Diluted earnings (loss) per share	<u>\$ 1.14</u>	<u>\$ (0.14)</u>	<u>\$ 1.30</u>	<u>\$ (1.02)</u>
Weighted Average Common Shares:				
Basic	16,006,946	15,953,059	15,995,257	15,931,599
Diluted	16,184,094	15,953,059	16,138,072	15,931,599

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

NORTEK, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the second quarter ended		For the first six months ended	
	July 2, 2016	June 27, 2015	July 2, 2016	June 27, 2015
	<i>(Dollar amounts in millions)</i>			
Net earnings (loss)	\$ 18.4	\$ (2.3)	\$ 21.0	\$ (16.2)
Other comprehensive (loss) income, net of tax:				
Currency translation adjustment	(3.1)	2.3	(0.9)	(3.8)
Pension liability adjustments:				
Currency translation on pension liabilities	0.2	—	—	(0.1)
Amortization of cumulative loss	0.1	0.3	0.4	0.7
Deferred income taxes on pension liability	(0.1)	0.1	(0.4)	(0.2)
Total pension liability, net of tax	0.2	0.4	—	0.4
Other comprehensive (loss) income	(2.9)	2.7	(0.9)	(3.4)
Comprehensive income (loss)	\$ 15.5	\$ 0.4	\$ 20.1	\$ (19.6)

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

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

	For the first six months ended	
	July 2, 2016	June 27, 2015
	<i>(Dollar amounts in millions)</i>	
Cash flows from operating activities:		
Net earnings (loss)	\$ 21.0	\$ (16.2)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Depreciation expense	23.8	24.5
Amortization expense, including increase to cost of revenues for inventory acquired in business combinations	34.6	32.4
Loss from debt retirement	—	14.8
Non-cash interest expense, net	1.5	1.3
Non-cash share-based compensation expense	4.4	3.5
Other non-cash charges, net	0.6	1.2
Deferred income tax provision (benefit)	5.6	(15.4)
Changes in certain assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(42.7)	(96.9)
Inventories	(6.7)	(18.7)
Prepaid and other current assets	(3.3)	(1.2)
Accounts payable	11.2	5.1
Accrued expenses, taxes, and deferred revenue	6.2	(4.3)
Long-term assets, liabilities and other, net	(1.4)	(11.0)
Total adjustments to net earnings (loss)	33.8	(64.7)
Net cash provided by (used in) operating activities	54.8	(80.9)
Cash flows from investing activities:		
Capital expenditures	(20.9)	(20.0)
Net cash paid for businesses acquired and dispositions	(1.0)	(51.8)
Net cash paid for equity investments	(4.0)	—
Net cash paid for acquisition of intangible assets	(0.9)	—
Proceeds from the sale of property and equipment	2.4	0.1
Change in restricted cash and marketable securities	(2.1)	0.1
Other, net	0.9	(0.6)
Net cash used in investing activities	(25.6)	(72.2)
Cash flows from financing activities:		
Proceeds from ABL and other borrowings	189.1	284.1
Payment of ABL and other borrowings	(202.0)	(158.0)
Redemption of the 10% Senior Notes due 2018, including redemption premium	—	(262.5)
Net proceeds from borrowings under the senior secured term loan facility due 2020	—	261.8
Fees paid in connection with debt facilities	(1.0)	(2.7)
Net use from equity transactions	(0.3)	(1.9)
Other, net	—	0.1
Net cash (used in) provided by financing activities	(14.2)	120.9
Net change in unrestricted cash and cash equivalents	15.0	(32.2)
Unrestricted cash and cash equivalents at the beginning of the period	24.6	58.4
Unrestricted cash and cash equivalents at the end of the period	\$ 39.6	\$ 26.2

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

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 2, 2016 AND JUNE 27, 2015

(A) Basis of Presentation

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

The Company operates on a calendar year, and each interim period is comprised of two 4-week periods and one 5-week period, with each week ending on a Saturday. The Company's fiscal year always begins on January 1 and ends on December 31. As a result, the Company's first and fourth quarters may have more or less days included than a traditional 4-4-5 fiscal calendar, which consists of 91 days. The three months ended July 2, 2016 ("second quarter of 2016") and June 27, 2015 ("second quarter of 2015") each include 91 days. The first six months ended July 2, 2016 ("first half of 2016") and June 27, 2015 ("first half of 2015") included 184 days and 178 days, respectively.

The accompanying unaudited condensed consolidated financial statements reflect the financial position, results of operations, comprehensive income (loss), and cash flows of the Company after elimination of intercompany accounts and transactions, 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 disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been omitted, the Company believes that the disclosures included are adequate to make the information presented herein not misleading. Operating results for the second quarter and first half of 2016 and 2015 are not necessarily indicative of the results that may be expected for other interim periods or for any fiscal year. Certain amounts in the prior periods' unaudited condensed consolidated financial statements have been reclassified to conform to the current period presentation.

The operating results of acquired entities are included in the Company's consolidated results of operations from the date of acquisition prospectively and the results of operations from dispositions are excluded commencing on the date of disposition.

The Company has entered into certain arrangements with an independent third party in Mexico related to the Company's manufacturing operations in Mexico. The Company has evaluated the operating entities that were formed under these arrangements and has determined that these entities are variable interest entities in accordance with Accounting Standards Codification ("ASC") 810, "Consolidation" ("ASC 810"). The Company has concluded that it is the primary beneficiary of these entities since it has both the power to direct activities that most significantly impact the entities' economic performance and the obligation to absorb losses that could potentially be significant since the Company is responsible for all operating decisions and all operating costs of these entities. As a result, the Company is consolidating the results of these entities in accordance with ASC 810. For the second quarter and first half of 2016 and 2015, the results of operations of these entities included in the Company's statement of operations were not material.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2015 ("2015 Form 10-K") and Current Reports on Form 8-K as filed with the Securities and Exchange Commission ("SEC").

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 2, 2016 AND JUNE 27, 2015

As previously announced, on July 6, 2016, the Company entered into a merger agreement with Melrose Industries PLC, a United Kingdom listed public company and its newly created wholly owned subsidiary, Nevada Corp., (collectively, "Melrose"), to be acquired by Melrose for \$86.00 per share in cash (the "Purchase Price"), or an estimated total enterprise value of approximately \$2.8 billion. The transaction was approved by Melrose's shareholders on July 25, 2016 and is expected to close by the end of August 2016. In connection with the merger agreement, the Company also entered into an agreement with certain stockholders for the reimbursement of certain fees incurred in connection with the merger.

New Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)* ("ASU 2016-13"). The guidance requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected credit losses during the period. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. The updated guidance is effective for annual periods beginning after December 15, 2019, and is applicable to the Company in 2020, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 impacts several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in ASU 2016-09 are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted. Additionally, an entity that elects early adoption must adopt all of the amendments in the same period. The Company will adopt ASU 2016-09 in the first quarter of 2017 and is currently evaluating the impact of adoption on its financial position and results from operations.

In March 2016, the FASB issued ASU No. 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments* ("ASU 2016-06"). ASU 2016-06 clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in ASU 2016-06 is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments in ASU 2016-06 are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company will adopt ASU 2016-06 in the first quarter of 2018 and is currently evaluating the impact of adoption on its financial position and results from operations.

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

NORTEK, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and requires equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of ASU 2016-01. The amendments allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. The amendments also require enhanced disclosures about those investments. The amendments improve financial reporting by providing relevant information about an entity's equity investments and reducing the number of items that are recognized in other comprehensive income. As of July 2, 2016, the Company only holds one investment that would be impacted by ASU 2016-01, which is its preferred stock investment in MiOS Limited ("MiOS") (see Note B, *"Acquisitions, Investments and Dispositions"* for further discussion). As MiOS is a privately-held company and therefore, the Company's investment does not have a readily determinable fair value, the Company will choose to measure its investment at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company will adopt this standard on January 1, 2018 and the adoption is not expected to have a material impact on the Company's financial position or results of operations.

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

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40) - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"), which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. Consequently, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The Company was required to adopt ASU 2015-05 effective January 1, 2016. The Company adopted this pronouncement prospectively in the first quarter of 2016 and the adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"), which provides guidance on simplifying the presentation of debt issuance costs on the balance sheet. To simplify presentation of debt issuance costs, the amendments in ASU No. 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs was not affected by the amendments in this update. In August 2015, the FASB issued ASU No. 2015-15, *Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update)* ("ASU 2015-15"), to address the presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Under ASU 2015-15, entities are permitted to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt

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issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of credit-arrangement. The Company adopted these pronouncements retrospectively in the first quarter of 2016. As a result of the adoption, the Company reclassified approximately \$13.5 million of unamortized debt issuance costs from other long-term assets to notes, mortgage notes and obligations payable, less current maturities on its condensed consolidated balance sheet at December 31, 2015. There was no impact to the Company's statement of operations or cash flow as a result of the adoption.

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

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40)* ("ASU 2014-15"), which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term "substantial doubt", (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company will adopt this pronouncement for the year ended December 31, 2016 and does not expect adoption to have a material effect on the Company's consolidated financial statements.

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

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(B) Acquisitions, Investments and Dispositions

Acquisitions

Anthro Acquisition

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

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

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

Numera Acquisition

On June 30, 2015, one of the Company's wholly-owned subsidiaries completed the acquisition of certain assets and liabilities related to the mobile personal emergency response system and telehealth business of Numera, Inc. ("Numera"), a privately held company. The acquired operations have been integrated into the Company's Security and Controls Solutions ("SCS") segment. The Company completed the acquisition to expand its technology and product offerings of the SCS segment.

The Company acquired certain assets and liabilities of Numera for an aggregate initial all cash purchase price of approximately \$12.0 million, of which approximately \$1.5 million was deposited into an escrow account with a third party escrow agent.

In addition to the initial purchase consideration, the Company could have been required to pay additional purchase consideration of up to \$28.0 million based on the amount by which future sales, as defined under the purchase agreement, exceeded \$12.1 million during the period from March 29, 2015 through April 2, 2016. The fair value of the contingent consideration was determined to be approximately \$3.7 million as of the acquisition date resulting in a total purchase price of approximately \$15.7 million. The Company recorded its estimate of the fair value of the contingent consideration based on the evaluation of the likelihood of the achievement of the contractual conditions that would result in the payment of the contingent consideration. The Company's fair value of the contingent consideration was determined using an option pricing model. The real option approach methodology applies option pricing theory to a "real" stream, such as revenue. Utilization of this methodology allows running a high number of simulations and therefore, the Company believes that this valuation methodology was most appropriate.

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Key Level 3 inputs utilized in determining the fair value were:

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

During the fourth quarter of 2015, based on consideration of Numera's post acquisition revenues during the earn-out period, as well as forecasts for the remainder of the earn-out period which were impacted by certain short-term delays in customer purchases, the Company determined that there was a decrease in the fair value of the contingent consideration liability. At December 31, 2015, the Company determined that the fair value of the contingent consideration liability was approximately \$0.2 million and recorded a benefit to SG&A of approximately \$3.5 million during the fourth quarter of 2015. During the first half of 2016, the Company recorded a benefit to SG&A to reduce the fair value of the contingent consideration liability to zero as the earn-out period expired and achievement of the contractual obligations were not met.

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

Due to the fact that the fees Numera receives for hardware sales and related hardware activations were not deemed separate units of accounting, these fees are deferred until such time as the hardware units are activated and then recognized ratably over the estimated period of economic benefit which has been initially determined to be three years for both hardware units and activations. In addition, Numera capitalizes the direct and incremental costs related to hardware and activation sales and recognizes these costs over the same period that the associated revenue is recognized. At July 2, 2016 and December 31, 2015, Numera had approximately \$6.3 million and \$2.8 million, respectively, of deferred revenue.

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

Nuiku

On May 19, 2016, one of the Company's wholly-owned subsidiaries completed the acquisition of certain assets of Nuiku, Inc. ("Nuiku"), which was a privately-owned company that had developed a data driven platform and cloud based application program interface that enables natural language processing for multiple products ("NLP Software"). The acquired NLP Software is expected to be integrated with certain of the Company's SCS and Air Quality and Home Solutions ("AQH") products. The Company completed the acquisition of Nuiku to expand its technology and product offerings and functionality. The Company acquired Nuiku for an aggregate initial all cash purchase price of approximately \$1.3 million, of which approximately \$1.0 million was paid at closing and approximately \$0.3 million was deferred to be paid no later than August 14, 2017 subject to any reduction for indemnification or other claims. There were no tangible assets acquired or liabilities assumed and the Company concluded that the estimated fair value of acquired developed technology was approximately \$1.3 million and will be amortized over its estimated useful life of four years. In addition to the initial cash purchase price consideration, the asset purchase agreement also contained a contingent purchase consideration provision whereby the Company is required to pay additional consideration (all in cash), up to a maximum of \$2.3 million and is contingent on the continued employment of a single employee. Accordingly, the Company concluded that the contingent purchase consideration arrangement represented a

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single unit of accounting and should be accounted for as a compensation arrangement and not a component of acquisition accounting.

Investments

MiOS

On May 2, 2016, the Company purchased certain preferred stock of MiOS Limited ("MiOS") for approximately \$4.5 million, which represents an ownership of approximately 25% on a fully-diluted basis. MiOS is a global technology company focused on developing and distributing advanced control and monitoring solutions for the home and small enterprise markets. It was determined that the convertible preferred stock investment was not substantially similar to common stock and, therefore, such investment is being accounted for as a cost method investment under ASC 325-20, *Cost Method Investments*. The fair value of the investment was determined to be approximately \$4.0 million. There were no indicators of other-than-temporary impairment noted through July 2, 2016. In addition, in connection with the convertible preferred stock investment, the Company and MiOS entered into a commercial agreement under which MiOS will work with the Company's AQH, SCS, and audio, video and control ("AVC") segments to develop lifestyle-driven solutions for the connected-home for various customer bases, including builders, electricians and installing dealers. The Company allocated approximately \$0.5 million of the consideration paid for the convertible preferred stock as a prepayment for development services under this commercial agreement which is being expensed over the expected period of such development services.

Dispositions

Sale of TV One Business

In July 2015, the Company received an unsolicited inquiry regarding the purchase of its TV One businesses ("TV One") that were part of the AVC entities and the Company commenced an evaluation of the potential sale of TV One. On July 28, 2015, the Company's Board of Directors approved the plan to sell the stock of TV One to a consortium of TV One's management on July 31, 2015. Under the terms of the agreement, the Company has no ongoing involvement or obligations with respect to TV One and the Company is not obligated to indemnify the purchasers in connection with this transaction. There was no substantial cash consideration received in connection with the transaction. The Company recorded a loss on sale of assets of approximately \$2.9 million in the third quarter of 2015. The Company concluded that the sale of TV One did not meet the criteria to be reported as a discontinued operation under ASC 205-20, "Discontinued Operations", due to the fact that its disposition does not represent a strategic shift that has (or will have) a major effect on the Company's operations and financial results. TV One had net sales of approximately \$3.9 million and \$7.8 million in the second quarter and first half of 2015, respectively, and operating losses of approximately \$2.8 million and \$3.4 million in the second quarter and first half of 2015, respectively.

Asset Held for Sale

During 2015, the Company committed to a plan to sell one of its Residential and Commercial HVAC ("RCH") segment's warehouse properties and engaged a third party broker to assist the Company in actively marketing this asset and identifying a buyer. The assets held for sale related to separately identifiable building and land owned by a subsidiary within the RCH reporting unit. The Company continued to evaluate the realizability of the carrying value of the assets held for sale and recorded impairment charges of approximately \$0.8 million during the year ended December 31, 2015 to reduce the carrying value to the estimated fair value less costs to sell. During January 2016, the Company completed the sale of this asset resulting in a total sales price, less costs to sell, of approximately \$2.3 million.

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(C) Goodwill and Other Intangible Assets

Goodwill

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

2015 Goodwill Impairment Considerations

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

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

During the fourth quarter of 2015, the Company concluded that continued negative operating result trends for certain of its reporting units, as well as the decline in the Company's overall market capitalization, represented indicators of potential goodwill impairment. As a result, the Company completed a quantitative goodwill impairment test as of the end of its fiscal month of November. It was determined that the estimated fair values of the Company's reporting units were greater than their carrying value. As a result, no Step 2 test for goodwill impairment was required as of November 21, 2015. At December 31, 2015, estimated fair values of the AQH, ERG and SCS reporting units were more than 50% greater than the carrying value of these reporting units, and the RCH reporting unit estimated fair value was approximately 10% greater than the carrying value.

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2016 Interim Goodwill Impairment Considerations

During the first and second quarters of 2016, based on consideration of a number of qualitative and other factors, including the historical excess of fair value over the carrying amount of the RCH reporting unit, the current and forecasted operating results as compared to the forecasts used in the November 21, 2015 quantitative analysis, overall industry and market trends, including trends and multiples of guideline public companies, and the increase in the Company's overall enterprise value from December 31, 2015, the Company determined that it was not more likely than not that the fair value of any of its reporting units was below its carrying amount. However, given the fact that the estimated fair value of its RCH reporting unit was approximately 10% greater than the carrying value of this reporting unit as of December 31, 2015, a negative trend of operating results or material changes to forecasted operating results of the RCH reporting unit could result in the requirement for additional interim goodwill impairment tests and the potential of a future goodwill impairment charge, which could be material.

Goodwill Activity

The following table presents a summary of the activity in goodwill by reporting segment for the first half of 2016:

	December 31, 2015 ⁽¹⁾	Acquisitions	July 2, 2016 ⁽¹⁾
	<i>(Dollar amounts in millions)</i>		
Air Quality and Home Solutions:			
Gross goodwill	\$ 156.8	\$ —	\$ 156.8
Impairment losses	—	—	—
Net AQH goodwill	<u>156.8</u>	<u>—</u>	<u>156.8</u>
Security and Control Solutions:			
Gross goodwill	85.3	—	85.3
Impairment losses	—	—	—
Net SCS goodwill	<u>85.3</u>	<u>—</u>	<u>85.3</u>
Ergonomic and Productivity Solutions:			
Gross goodwill	157.0	—	157.0
Impairment losses	—	—	—
Net ERG goodwill	<u>157.0</u>	<u>—</u>	<u>157.0</u>
Residential and Commercial HVAC:			
Gross goodwill	106.4	—	106.4
Impairment losses	—	—	—
Net RCH goodwill	<u>106.4</u>	<u>—</u>	<u>106.4</u>
Audio, Video and Control Solutions:			
Gross goodwill	4.4	—	4.4
Impairment losses	(4.4)	—	(4.4)
Net AVC goodwill	<u>—</u>	<u>—</u>	<u>—</u>
Consolidated goodwill:			
Gross goodwill	509.9	—	509.9
Impairment losses	(4.4)	—	(4.4)
Net consolidated goodwill	<u>\$ 505.5</u>	<u>\$ —</u>	<u>\$ 505.5</u>

(1) The CAS reporting unit did not have goodwill for any periods presented.

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Other Intangible Assets

During the second quarter of 2016, the Company acquired a perpetual license to develop technology utilized in certain of its SCS segment's products. The fair value of the acquired developed technology was approximately \$1.1 million and is being amortized over its estimated useful life of three years.

(D) Cash Flows

The impact of changes in foreign currency exchange rates on cash was approximately \$2.9 million and \$1.3 million for the first half of 2016 and 2015, respectively, and has been included in "Long-term assets, liabilities and other, net" within operating activities in the accompanying unaudited condensed consolidated statements of cash flows.

Interest paid was approximately \$45.4 million and \$49.3 million for the first half of 2016 and 2015, respectively. Income tax payments, net of refunds, for the first half of 2016 and 2015 were approximately \$8.0 million and \$7.7 million, respectively.

(E) Notes, Mortgage Notes and Obligations Payable

Senior Secured Asset-Based Revolving Credit Facility (the 'ABL Facility')

As of July 2, 2016, the Company had approximately \$35.0 million in outstanding borrowings and approximately \$12.9 million in outstanding letters of credit under the ABL Facility. Based on the May 2016 borrowing base calculations, at July 2, 2016, the Company had specified availability of approximately \$285.2 million and approximately \$252.7 million of specified availability before triggering the cash deposit requirements under the ABL Facility.

As of August 3, 2016, the Company had approximately \$29.0 million in outstanding borrowings and approximately \$12.9 million in outstanding letters of credit under the ABL Facility. Based on the June 2016 borrowing base calculations, at August 3, 2016, the Company had specified availability of approximately \$291.2 million and approximately \$258.7 million of specified availability before triggering the cash deposit requirements under the ABL Facility.

On May 9, 2016, the Company entered into an amendment (the "Amendment") to the ABL Facility. Among other changes, the Amendment (i) increases the maximum amount of the ABL Facility (which, following the Amendment, is available solely to the Company and certain of its U.S. subsidiaries) from \$300.0 million to \$325.0 million, with a right of the Company to increase the ABL Facility by up to an additional \$125.0 million, subject to the receipt of commitments from the lenders providing such increase and the satisfaction of certain other conditions, (ii) eliminates the portion of the ABL Facility previously available to certain of the Company's Canadian subsidiaries (subject to certain rights of the Company to re-establish such availability with certain limits) and releases all guarantees and collateral security previously provided by such Canadian subsidiaries, (iii) lowers the interest rates payable by the Company under the ABL Facility (as more fully described below), (iv) extends the maturity date of the ABL Facility from June 13, 2017 to May 9, 2021, and (v) expands certain baskets and permissions available to the Company under certain of the operational covenants with which the Company must comply and in the calculation of the borrowing base, as more fully set forth in the Amendment. The Company incurred approximately \$1.0 million in fees and expenses in connection with amending the ABL Facility during the second quarter of 2016 that were recorded as debt issuance costs and will be recognized as interest expense over the term of the ABL Facility.

The interest rates applicable to loans under the ABL Facility as amended by the Amendment are, at the Company's option, equal to either an adjusted LIBOR rate for a one, two, three or six month interest period (or such period of 365

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days or less, if consented to by the relevant lenders) or an alternate base rate, plus an applicable margin percentage ranging from 1.25% to 1.75% for borrowings based on the adjusted LIBOR rate, and 0.25% to 0.75% for borrowings based on the alternate base rate, depending on the Company's Average Excess Availability Percentage (as defined in the amended ABL Facility); provided that, for any fiscal quarter of the Company commencing with the fiscal quarter ending December 31, 2016, if the Company's Consolidated Total Leverage Ratio (as defined in the amended ABL Facility) as of the end of the preceding fiscal quarter is less than 4.0 to 1.0, then the applicable margin percentage will be reduced by 0.25% (but in any event not below 1.25% for borrowings based on the adjusted LIBOR rate or 0.25% for borrowings based on the alternate base rate). The alternate base rate will be the greater of (1) the Federal Funds rate plus 0.50%, (2) 1.00% plus the LIBOR rate for a 30 day interest period as determined on such day, or (3) the prime rate. Interest is payable at the end of the selected interest period, but no less frequently than quarterly.

Second Quarter 2015 Debt Transactions

On April 2, 2015, the Company obtained an incremental \$265.0 million senior secured term loan pursuant to an amendment to the Company's existing \$350.0 million senior secured term loan facility due 2020 dated as of April 30, 2014. Additionally on April 2, 2015, the Company provided a notice of redemption for all of its outstanding 10% Senior Notes due 2018 (the "10% Notes"). These notes were redeemed on May 4, 2015 at a redemption price of 105.0% of the aggregate principal amount thereof, plus accrued and unpaid interest to the redemption date. The Company incurred fees and expenses of approximately \$2.7 million and the redemption of the 10% Notes resulted in a pre-tax loss of approximately \$14.8 million during the second quarter of 2015.

Debt Covenant Compliance

The indentures and other agreements governing the Company's indebtedness and the indebtedness of its subsidiaries contain certain restrictive financial and operating covenants, including covenants that restrict, among other things, the Company's ability and the ability of its subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets, and take certain other corporate actions (all as defined in the indentures and other agreements). As of July 2, 2016, the Company had the capacity to make certain payments, including dividends, of approximately \$155.7 million.

As of July 2, 2016, the Company was in compliance with all covenants under the indenture that governs the 8.5% Notes and the credit agreements that govern the ABL Facility and the Term Loan Facility. Excluding the effect of a potential change of control as a result of the proposed merger with Melrose (which would constitute an event of default under the credit agreements that govern the ABL Facility and Term Loan Facility), the Company anticipates compliance with all covenants under the indenture that governs the 8.5% Notes and the credit agreements that govern the ABL Facility and the Term Loan Facility for the foreseeable future.

(F) Exit and Disposal Activities

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

Manufacturing Rationalization and Relocation Initiatives

Prior to 2016, the Company's Board of Directors approved several initiatives relating to the transfer of product manufacturing and the consolidation of certain manufacturing facilities within the RCH and CAS segments (collectively, the "Manufacturing Rationalization & Relocation Initiatives"). Cash expenditures began in the second quarter of 2013

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and were completed as of the end of 2015. In connection with the Manufacturing Rationalization & Relocation Initiatives, the Company incurred cumulative costs of approximately \$18.0 million (of which approximately \$16.4 million and \$1.6 million were recorded in the RCH and CAS segments, respectively).

Warehousing and Distribution Consolidation

In connection with the Company's efforts to optimize supply chain performance, in 2013 the Company's Board of Directors approved entry into a five-year agreement with a third party logistics service provider to outsource certain warehousing and distribution activities in the Company's North American operating segments and facilitate the consolidation of North American warehousing distribution centers (the "Warehousing & Distribution Consolidation"). In late 2015, it was determined that the Company would assume control of certain U.S. dedicated distribution centers that had been operated by this third party logistics service provider since 2013. All activity related to the Warehousing & Distribution Consolidation was completed in 2015. Cumulative costs incurred in connection with the Warehousing & Distribution Consolidation included severance and other costs of approximately \$2.7 million, of which approximately \$1.7 million, \$0.6 million, and \$0.4 million were recorded in the SCS, ERG, and AVC segments, respectively.

Subsidiary Combinations

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

In connection with all Subsidiary Combinations, which are substantially completed, the Company has incurred cumulative costs of approximately \$25.7 million, of which approximately \$0.9 million, \$1.3 million and \$23.5 million was recorded in the SCS, RCH, and AVC segments, respectively. These costs consist of one time termination benefits of approximately \$6.4 million, approximately \$9.6 million in costs to reduce inventory values for certain products to their expected net realizable amount, and facility exit and other costs of approximately \$9.7 million.

The following table sets forth the changes to the liability for Subsidiary Combinations during the first half of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2015	\$ 1.0	\$ 1.2	\$ 2.2
Provision ⁽¹⁾	0.2	—	0.2
Payments	<u>(1.1)</u>	<u>(0.6)</u>	<u>(1.7)</u>
Balance, July 2, 2016	<u>\$ 0.1</u>	<u>\$ 0.6</u>	<u>\$ 0.7</u>

(1) All costs during the first half of 2016 were recorded in the AVC segments.

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

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Best Restructuring

In 2011, management approved a plan to reduce costs and improve production efficiencies at Best, one of the Company's AQH subsidiaries, including transferring certain operations from Italy to Poland (the "Best Restructuring"). In the third quarter of 2015, management approved further restructuring costs for this business (the "additional restructuring actions"). In connection with the Best Restructuring, including the additional restructuring actions, the Company has incurred cumulative costs of approximately \$19.8 million, consisting of contractual termination benefits of approximately \$19.4 million and other costs of approximately \$0.4 million. As the Company continues to evaluate Best, it is possible that the Company will take future restructuring actions and additional expenses may be incurred.

The following table sets forth the changes to the liability for the Best Restructuring during the first half of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2015	\$ 1.3	\$ —	\$ 1.3
Provision	0.2	—	0.2
Payments	(0.4)	—	(0.4)
Other	(0.1)	—	(0.1)
Balance, July 2, 2016	<u>\$ 1.0</u>	<u>\$ —</u>	<u>\$ 1.0</u>

CAS Segment Consolidation

On May 4, 2015, the Company's Board of Directors approved a restructuring plan designed to consolidate production activities in its North American and European operations in the CAS segment, and exit from certain product lines which were determined to have limited strategic importance or to be competitively disadvantaged. The plan anticipated that the production facilities at two North American locations would be discontinued, with the product lines from those facilities transferred to other North American locations, or discontinued. Furthermore, the CAS segment's manufacturing operations in Mexico were ceased and the operation of the manufacturing facility was transferred to the Company's RCH segment to be used in that segment's production activities. The CAS Segment Consolidation is substantially complete and costs of approximately \$8.2 million have been recorded comprised principally of employee separation, facility abandonment, and inventory write-offs during the consolidation period.

The following table sets forth the changes to the liability for the CAS Segment Consolidation during the first half of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2015	\$ 0.4	\$ —	\$ 0.4
Provision	(0.1)	—	(0.1)
Payments	(0.3)	—	(0.3)
Balance, July 2, 2016	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Other Restructuring Activities

As noted previously, the Company transferred the management of its UK commercial HVAC subsidiary from the CAS segment to the RCH segment. As part of this transfer, in 2015 the Company's Board of Directors approved a restructuring plan related to the UK commercial HVAC subsidiary including a reduction of headcount, the closure of one facility, and the transfer of certain operations to other facilities within the RCH segment. Costs to be incurred in connection with this plan are expected to be in the range of approximately \$5.0 million to \$6.0 million, comprised

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principally of employee separation and lease obligations. The Company has recorded cumulative severance and other costs relating to this restructuring activity of approximately \$4.3 million, consisting of severance of approximately \$2.2 million and other costs, including inventory write-offs, of approximately \$2.1 million.

The following table sets forth the changes to the liability for other restructuring activities during the first half of 2016:

	<u>Severance</u>	<u>Other Costs</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>		
Balance, December 31, 2015	\$ 0.4	\$ 1.0	\$ 1.4
Provision	—	—	—
Payments	(0.5)	(0.2)	(0.7)
Other	0.1	(0.1)	—
Balance, July 2, 2016	<u>\$ —</u>	<u>\$ 0.7</u>	<u>\$ 0.7</u>

In July 2016, the Company's Board of Directors approved a proposed restructuring plan related to the closure of its UK commercial HVAC subsidiary, subject to employee consultation processes as appropriate. This plan of closure will include a reduction in headcount, closure of the remaining manufacturing operations and transfer and consolidation of certain product lines to other facilities within the RCH and AQH segments. Costs to be incurred in connection with this plan are expected to be in the range of approximately \$5.0 million to \$7.0 million and the Company expects the plan to be substantially complete by the end of 2016. No costs related to the closure have been recognized as of July 2, 2016.

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Summary of Exit and Disposal Activities

The following table outlines amounts recorded within the unaudited condensed consolidated statement of operations associated with the Company's exit and disposal activities for the second quarter of 2016 and 2015:

	<u>For the second quarter of 2016</u>			<u>For the second quarter of 2015</u>		
	<u>SG&A</u>	<u>COGS</u>	<u>Total</u>	<u>SG&A</u>	<u>COGS</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>					
Manufacturing Rationalization & Relocation Initiatives	\$ —	\$ —	\$ —	\$ 0.1	\$ 1.4	\$ 1.5
Subsidiary Combinations	—	(0.3)	(0.3)	0.1	—	0.1
CAS Segment Consolidation	—	—	—	0.5	4.3	4.8
Best Restructuring	—	0.2	0.2	—	0.2	0.2
Other restructuring activities	—	—	—	0.2	2.7	2.9
Total ⁽¹⁾	<u>\$ —</u>	<u>\$ (0.1)</u>	<u>\$ (0.1)</u>	<u>\$ 0.9</u>	<u>\$ 8.6</u>	<u>\$ 9.5</u>

- (1) During the second quarter of 2016 and 2015, the Company recorded severance costs of approximately \$0.2 million and \$3.3 million, respectively.

The following table outlines amounts recorded within the unaudited condensed consolidated statement of operations associated with the Company's exit and disposal activities for the first half of 2016 and 2015:

	<u>For the first half of 2016</u>			<u>For the first half of 2015</u>		
	<u>SG&A</u>	<u>COGS</u>	<u>Total</u>	<u>SG&A</u>	<u>COGS</u>	<u>Total</u>
	<i>(Dollar amounts in millions)</i>					
Manufacturing Rationalization & Relocation Initiatives	\$ —	\$ —	\$ —	\$ 0.1	\$ 2.3	\$ 2.4
Warehousing & Distribution Consolidation	—	—	—	—	(0.3)	(0.3)
Subsidiary Combinations	0.4	(0.2)	0.2	0.2	—	0.2
CAS Segment Consolidation	—	(0.1)	(0.1)	0.5	4.3	4.8
Best Restructuring	—	0.2	0.2	—	0.4	0.4
Other restructuring activities	—	—	—	0.4	3.1	3.5
Total ⁽¹⁾	<u>\$ 0.4</u>	<u>\$ (0.1)</u>	<u>\$ 0.3</u>	<u>\$ 1.2</u>	<u>\$ 9.8</u>	<u>\$ 11.0</u>

- (1) During the first half of 2016 and 2015, the Company recorded severance costs of approximately \$0.3 million and \$4.0 million, respectively.

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(G) Commitments and Contingencies

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

Lease Obligations

During 2016, the Company entered into a new lease obligation within the CAS segment totaling approximately \$21.5 million in additional lease payments. This lease agreement is for a term of twelve years and includes increasing payments whereby the annual lease payments for the initial 50% of the lease term are approximately \$1.7 million per year and then increasing to approximately \$1.9 million for the remaining lease term. The lease agreement contains an extension option for a period of six years which is not a bargain renewal option. There have been no other material changes to our lease obligations during the first half of 2016.

Indemnifications

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

	<u>July 2, 2016</u>	<u>December 31, 2015</u>
	<i>(Dollar amounts in millions)</i>	
Accrued expenses	\$ 2.4	\$ 2.5
Other long-term liabilities	<u>0.9</u>	<u>1.1</u>
	<u>\$ 3.3</u>	<u>\$ 3.6</u>
Undiscounted future payments	\$ 3.5	\$ 3.7

Certain of the liabilities recorded by the Company, which are reflected in the above table, relate to environmental site remediation matters. The amounts recorded represent the Company's portion of the estimated site remediation costs. Certain of the site remediation matters involve unrelated third parties and each party to the environmental site remediation matters is jointly and severally liable for the applicable remediation costs. As a result, the Company could become wholly-liable for the unrelated third parties' current obligations should any of these unrelated third parties become insolvent. The Company is not aware of any current information that indicates that the other responsible parties will not be able to fulfill their contractual obligations, and therefore, no incremental liability is deemed probable. As a result, the liabilities recorded by the Company at July 2, 2016 and December 31, 2015 reflect only the Company's contractually allocated portion of the estimated site remediation costs.

Product Warranty and Recall Reserves

The Company sells a number of products and offers a number of warranties including, in some instances, extended warranties for which the Company receives proceeds. The specific terms and conditions of these warranties vary depending on the product sold and the country in which the product is sold. The Company estimates the costs that may be incurred under its warranties, with the exception of extended warranties, and records a liability for such costs at the time of sale. Warranty costs are included in cost of revenues. Deferred revenue from extended warranties is recorded at estimated fair value and is amortized over the life of the warranty and periodically reviewed to ensure that the amount recorded is equal to or greater than estimated future costs. Factors that affect the Company's warranty liability include

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the number of units sold, historical and anticipated rates of warranty claims, cost per claim, and new product introductions. The Company periodically assesses the adequacy of its recorded warranty claims and adjusts the amounts as necessary.

Changes in the Company's combined short-term and long-term warranty liabilities during the second quarter and first half of 2016 and 2015 are as follows:

	Second Quarter of		First Half of	
	2016	2015	2016	2015
	<i>(Dollar amounts in millions)</i>			
Balance, beginning of period	\$ 50.5	\$ 54.9	\$ 51.0	\$ 54.8
Warranties provided during period	5.9	5.2	11.8	11.6
Settlements made during period	(6.7)	(6.7)	(13.3)	(12.8)
Other changes in liability estimate, including expirations and acquisitions	—	(0.2)	0.2	(0.4)
Balance, end of period	<u>\$ 49.7</u>	<u>\$ 53.2</u>	<u>\$ 49.7</u>	<u>\$ 53.2</u>

The Company has undertaken several voluntary product recalls and reworks over the past several years and could do so in the future given the nature of the Company's business. The Company could be required to conduct a recall where a product contains a defect which (because of the pattern of defect, the number of defective products distributed in commerce, the severity of the risk, or otherwise) creates a substantial risk of injury to the public. Additional product recalls and reworks could result in material future costs. Many of the Company's products, especially certain models of bath fans, range hoods, and residential furnaces and air conditioners, have a large installed base, and any recalls or reworks related to such products could be particularly costly. The costs of product recalls or reworks are not generally covered by insurance. Recalls or reworks may adversely affect the Company's reputation as a manufacturer of high-quality, safe products and could have a material adverse effect on its financial condition, results of operations and cash flows.

Product Liability Contingencies

In an action initiated on May 21, 2014, Nortek Global HVAC LLC ("Nortek Global HVAC"), our wholly owned subsidiary, was named as a defendant in a putative class action lawsuit in Florida, Harris, et al. v. Nortek Global HVAC, LLC, Case No. 1:14-cv-21884-BB, filed in the United States District Court for the Southern District of Florida. In addition, in an action initiated on October 3, 2014, Nortek, Inc., Nortek Global HVAC LLC and Nortek Global HVAC Latin America, Inc. were named as defendants in a putative class action lawsuit in Tennessee, Bauer, et al. v. Nortek Global HVAC, LLC, et al., Case No. 3:14-cv-01940, filed in the United States District Court for the Middle District of Tennessee. These lawsuits allege that the copper evaporator and condenser coils in Nortek Global HVAC's residential heating and cooling products are susceptible to a type of potential corrosion that can result in coil leaks and eventual failure of the units. The Florida action sought compensatory damages associated with Nortek Global HVAC's alleged wrongdoing, injunctive relief, and attorneys' fees and costs. The Tennessee action seeks damages associated with repairing, retrofitting and/or replacing the allegedly defective products, the loss of value due to the alleged defect, property damages associated with the alleged defect, injunctive relief, punitive damages, and attorneys' fees and costs. On January 29, 2016, the Court in the Florida action entered an order denying the plaintiffs' motion to certify a class of Florida consumers. Subsequently, the Company reached a nominal settlement with the two named plaintiffs in the Florida action, and the action was dismissed. On April 18, 2016, the Court in the Tennessee action heard arguments on Nortek's pending motions to dismiss and to strike class allegations. No ruling with respect to such motions has been issued to date. The Company believes it has meritorious defenses against the claims in the Tennessee action. At this time, the Company believes that the likelihood of a material loss in the Tennessee action is remote and has not recognized a loss or liability in such action; however, it is possible that events could occur that would change the likelihood of a material loss, which could ultimately have a material impact on our business. The Company will

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continue to assess the likelihood of a material loss as the Tennessee action progresses.

FCPA Matters

As previously reported, as part of its routine internal audit activities, the Company discovered certain questionable payments, gifts and payment practices, and other expenses at the Company's subsidiary, Linear Electronics (Shenzhen) Co. Ltd. ("Linear China"), which were inconsistent with the Company's policies and raised concerns under the U.S. Foreign Corrupt Practices Act ("FCPA"). In January 2015, the Company voluntarily reported the matter to the SEC and U.S. Department of Justice (the "DOJ") and thereafter cooperated with their respective investigations.

On June 3, 2016, the DOJ informed the Company by letter (the "DOJ Letter") that it had closed its investigation into this matter. It stated that it had reached this conclusion, despite the conduct at issue, based on a number of factors, including but not limited to the fact that the Company's internal audit function identified the misconduct, the Company's prompt voluntary self-disclosure, the thorough investigation undertaken by the Company, its fulsome cooperation in this matter, the steps that the Company has taken to enhance its compliance program and its internal accounting controls, the Company's full remediation (including terminating the employment of all five individuals involved), and the fact that the Company agreed to pay to the SEC the full amount of disgorgement as determined by the SEC. The foregoing description of the DOJ Letter is qualified in its entirety by reference to the letter itself attached as Exhibit 99.2 to the Form 8-K filed by the Company with the SEC on June 7, 2016.

On June 7, 2016, the Company entered into a non-prosecution agreement ("Non-Prosecution Agreement") with the SEC under which the SEC agreed not to prosecute the Company for violations of the FCPA relating to improper payments and gifts by Linear China employees to local Chinese officials from 2009 to 2014. The Non-Prosecution Agreement reflects the Company's self-report, its prompt and thorough internal investigation, its immediate action to end the payments and to implement significant remedial measures, and its comprehensive, organized, and real-time cooperation with the SEC during the investigation. Under the Non-Prosecution Agreement, the Company agreed, among other things, to pay to the SEC disgorgement and prejudgment interest in the amount of approximately \$0.3 million, which amounts have been paid in full. The foregoing description of the SEC's Non-Prosecution Agreement is qualified in its entirety by reference to the agreement itself attached as Exhibit 99.1 to the Form 8-K filed by the Company with the SEC on June 7, 2016.

For the second quarter and first half of 2015, approximately \$0.4 million and \$1.4 million, respectively, was recorded for legal and other professional services incurred related to the internal investigation of this matter and a nominal amount was recognized in 2016.

Other Commitments and Contingencies

During the second quarter of 2016, the Company entered into an arrangement with a third party under which the Company is entitled to certain non-recurring payments that will be paid in 2016. During the second quarter of 2016, the Company received approximately \$2.0 million and this amount was recorded as a reduction of SG&A.

During the second quarter of 2016, the Company received a reduction from a vendor of approximately \$2.9 million related to contractual fees previously charged by this vendor and recorded a benefit to SG&A. The Company had previously accrued and expensed these contractual fees to SG&A throughout 2015.

In 2014, one of the Company's subsidiaries within its ERG segment entered into a lease agreement for a building of approximately 84,000 square feet located in China, to be used as a warehouse facility. The Company is responsible for a significant portion of the construction costs and was deemed, for accounting purposes, to be the owner of the building during the construction period, in accordance with ASC 840, *Leases*, Subsection 40-15-5. Construction of the facility commenced in the fourth quarter of 2015 and the Company has recorded approximately \$1.1 million and \$0.2 million

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within buildings and improvements and a corresponding long-term liability within its unaudited condensed consolidated balance sheet at July 2, 2016 and December 31, 2015, respectively. Construction is expected to total approximately \$2.0 million and be completed by the end of 2016.

The Company is subject to other contingencies, including legal proceedings and claims, arising out of its businesses that cover a wide range of matters including, among others, environmental matters, contract and employment claims, workers' compensation claims, product liability, warranty, and modification and adjustment or replacement of component parts of units sold, which include product recalls. Product liability, environmental and other legal proceedings also include matters with respect to businesses previously owned. The Company has used various substances in its products and manufacturing operations which have been or may be deemed to be hazardous or dangerous, and the extent of its potential liability, if any, under environmental, product liability and workers' compensation statutes, rules, regulations and case law is unclear. Furthermore, due to the lack of adequate information and the potential impact of present regulations and any future regulations, there are certain circumstances in which the amount or range of possible losses cannot be reasonably estimated.

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

(H) Income Taxes

The provision for income taxes for the second quarter and first half of 2016 was approximately \$11.0 million and \$13.6 million, respectively. The benefit from income taxes for the second quarter and first half of 2015 was approximately \$2.7 million and \$8.3 million, respectively. The effective income tax rate of approximately 39.3% for the first half of 2016 differs from the United States federal statutory rate of 35% principally as a result of losses in certain jurisdictions that cannot be benefited. The effective income tax rate benefit of approximately 33.9% for the first half of 2015 differs from the United States federal statutory rate of 35% principally as a result of the impact of lower foreign tax rates and losses in certain jurisdictions that cannot be benefited, partially offset by non-deductible expenses.

At July 2, 2016, the Company had approximately \$5.2 million of remaining tax benefits related to the excess of tax deductible stock compensation expense over the related book expense. This amount will be recognized as a credit to additional paid in capital when the benefits are realized on a tax return. The Company accounts for excess share-based compensation deductions on the basis that these are the last tax benefits that are utilized.

As of January 1, 2016, the Company had a liability of approximately \$18.4 million for unrecognized tax benefits related to various federal, foreign and state income tax matters. As a result of additional provisions during the first half of 2016, the liability for unrecognized tax benefits increased to approximately \$19.0 million at July 2, 2016. The liability for unrecognized tax benefits is included in other long-term liabilities on the accompanying unaudited condensed consolidated balance sheet. The corresponding amount of gross unrecognized tax benefits was approximately \$29.8 million and \$28.7 million at July 2, 2016 and December 31, 2015, respectively. The difference between the total unrecognized tax benefits and the amount of the liability for unrecognized tax benefits represents unrecognized tax benefits that have been netted against deferred tax assets in accordance with ASC 740, "Income Taxes" ("ASC 740").

As of July 2, 2016 and December 31, 2015, the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was approximately \$13.7 million and \$12.8 million, respectively. The difference between the total amount of unrecognized tax benefits and the amount that would affect the effective tax rate represents the

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federal tax effect of state tax items, items that offset temporary differences, and items that will result in a reduction of other tax assets.

As of July 2, 2016, the Company had approximately \$0.4 million in unrecognized benefits relating to various tax issues, for which the statute of limitations is expected to expire within the next twelve months.

As of July 2, 2016 and December 31, 2015, the total amount of accrued interest and penalties related to uncertain tax positions was approximately \$5.2 million and \$4.7 million, respectively. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state taxes.

(I) Segment Information and Concentration of Risk

The Company's principal reporting segments are as follows:

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

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

The Company evaluates segment performance based on operating earnings before allocations of corporate overhead costs and impairment charges. The financial statement impact of all acquisition accounting adjustments, including intangible asset amortization and goodwill, are reflected in the applicable operating segment, which are the Company's reporting units.

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Segment Operating Results

Net sales and operating earnings for the Company's reportable segments and the Company's consolidated earnings (loss) before provision (benefit) for income taxes for the second quarter and first half of 2016 and 2015 were as follows:

	<u>Second Quarter of</u>		<u>First Half of</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	<i>(Dollar amounts in millions)</i>			
Net sales:				
AQH	\$ 157.5	\$ 151.8	\$ 308.8	\$ 290.1
SCS	146.4	145.1	256.8	241.6
ERG	94.2	85.8	176.6	156.6
RCH	165.8	169.9	312.8	303.2
CAS	93.7	115.3	189.8	216.6
AVC	27.5	36.0	54.2	68.5
Consolidated net sales	<u>\$ 685.1</u>	<u>\$ 703.9</u>	<u>\$ 1,299.0</u>	<u>\$ 1,276.6</u>
Operating earnings (loss):				
AQH	\$ 19.3	\$ 19.4	\$ 35.5	\$ 32.8
SCS	20.3	18.5	28.5	23.1
ERG	25.3	15.4	39.6	23.4
RCH	8.5	(2.1)	9.7	(7.8)
CAS	2.4	1.1	7.3	4.0
AVC	(0.9)	(4.1)	(2.8)	(6.5)
Subtotal	74.9	48.2	117.8	69.0
Unallocated, net	(22.1)	(13.5)	(36.1)	(26.6)
Consolidated operating earnings	52.8	34.7	81.7	42.4
Net interest expense	(23.4)	(24.9)	(47.1)	(52.1)
Loss from debt retirement	—	(14.8)	—	(14.8)
Earnings (loss) before provision (benefit) for income taxes	<u>\$ 29.4</u>	<u>\$ (5.0)</u>	<u>\$ 34.6</u>	<u>\$ (24.5)</u>

Intersegment sales between the Company's reporting segments totaled approximately \$4.9 million and \$4.5 million for the second quarter of 2016 and 2015, respectively, and approximately \$10.2 million and \$9.0 million for the first half of 2016 and 2015, respectively. Intersegment sales between reporting segments were not individually material to any reporting segment for the periods presented.

Concentrations of Risk

No single customer accounted for 10% or more of consolidated net sales for the second quarter or first half of 2016 and 2015 or accounts receivable at July 2, 2016 and December 31, 2015.

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

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(J) Equity Activity

Restricted Stock

During the first half of 2016, 155,611 shares of restricted stock were granted and 100,264 shares of restricted stock were forfeited. Additionally during the first half of 2016, 47,873 shares of restricted stock vested, of which 12,185 shares of common stock were delivered to the Company as payment by employees in lieu of cash to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock.

Stock Options

During the first half of 2016, 10,000 stock options were exercised for common stock, none of which were delivered to the Company as payment in lieu of cash for stock options exercised and related minimum tax withholding obligations. Additionally, during the first half of 2016, 354,088 stock options were granted and 26,955 stock options were forfeited.

Comprehensive Income (Loss)

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

The balances of each component, net of tax attributes, within accumulated other comprehensive loss for the second quarter and first half of 2016 are as follows:

	Second quarter of 2016			First half of 2016		
	Foreign Currency Translation	Pension Liability Adjustment	Total Accumulated Other Comprehensive (Loss) Income	Foreign Currency Translation	Pension Liability Adjustment	Total Accumulated Other Comprehensive (Loss) Income
	(Dollar amounts in millions)					
Balance, beginning of period	\$ (17.1)	\$ (23.4)	\$ (40.5)	\$ (19.3)	\$ (23.2)	\$ (42.5)
Other comprehensive (loss) income before reclassifications	(3.1)	0.1	(3.0)	(0.9)	(0.4)	(1.3)
Amounts reclassified from AOCI to SG&A (1)	—	0.1	0.1	—	0.4	0.4
Net current-period other comprehensive (loss) income	(3.1)	0.2	(2.9)	(0.9)	—	(0.9)
Balance, end of period	<u>\$ (20.2)</u>	<u>\$ (23.2)</u>	<u>\$ (43.4)</u>	<u>\$ (20.2)</u>	<u>\$ (23.2)</u>	<u>\$ (43.4)</u>

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

Foreign Currency Translation

The financial statements of subsidiaries located outside of the United States are generally measured using the foreign subsidiary's local currency as the functional currency. The financial statements of the Company's international subsidiaries are translated in accordance with ASC 830, "Foreign Currency Matters" ("ASC 830"). The Company translates the assets and liabilities of its foreign subsidiaries at the exchange rates in effect at the end of the period. Before translation, the Company re-measures foreign currency denominated assets and liabilities, including certain inter-company accounts

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receivable and payable that have been determined to not be of a “long-term investment” nature, as defined by ASC 830, into the functional currency of the respective entity, resulting in unrealized gains or losses recorded in the consolidated statement of operations. Net sales, costs and expenses are translated using average exchange rates in effect during the period. Gains and losses from foreign currency translation are credited or charged to accumulated other comprehensive income (loss) included in stockholders’ investment. Transaction gains and losses and the remeasurement of certain intercompany receivables and payables are recorded in SG&A. The Company has provided long-term intercompany funding to certain of its foreign subsidiaries, principally for acquisitions, that are deemed to be of a long-term investment nature with the resulting translation adjustments being recorded as a component of stockholders’ investment within accumulated other comprehensive loss. The Company recorded a translation loss related to long-term intercompany funding of approximately \$4.3 million and a transaction gain related to long-term intercompany funding of approximately \$4.1 million in the second quarter of 2016 and 2015, respectively, and translation losses related to long-term intercompany funding of approximately \$5.8 million and \$0.1 million in the first half of 2016 and 2015, respectively, within other comprehensive (loss) income.

(K) Earnings (Loss) per Share

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

The reconciliations between basic and diluted earnings (loss) per share for the second quarter and first half of 2016 and 2015 are as follows:

	Second Quarter of		First Half of	
	2016	2015	2016	2015
	<i>(Dollar amounts in millions, except per share data)</i>			
Net earnings (loss)	\$ 18.4	\$ (2.3)	\$ 21.0	\$ (16.2)
Weighted average common shares outstanding	16,006,946	15,953,059	15,995,257	15,931,599
Dilutive effect of common share equivalents	177,148	—	142,815	—
Dilutive shares outstanding	16,184,094	15,953,059	16,138,072	15,931,599
Basic earnings (loss) per share	\$ 1.15	\$ (0.14)	\$ 1.31	\$ (1.02)
Diluted earnings (loss) per share	\$ 1.14	\$ (0.14)	\$ 1.30	\$ (1.02)

The effect of certain potential common share equivalents, as outlined below, were excluded from the computation of diluted shares outstanding for the second quarter and first half of 2016 and 2015 as their inclusion would have been anti-dilutive. Restricted stock awards which vest based upon achievement of performance targets are excluded from the diluted shares outstanding unless the performance targets had been met as of the end of the applicable reporting period regardless of whether such performance targets are probable of achievement.

In reporting periods in which the Company reports a net loss, anti-dilutive shares consist of the weighted average common stock equivalents outstanding for the period. In those reporting periods in which the Company reports net income, anti-dilutive shares consist of those common stock equivalents that have either an exercise price above the average stock price for the period or the common stock equivalents’ related average unrecognized stock compensation expense is sufficient to “buy back” the entire amount of shares.

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A summary of the weighted average anti-dilutive shares excluded from the second quarter and first half of 2016 and 2015 is as follows:

	Second Quarter of		First Half of	
	2016	2015	2016	2015
Restricted stock	93,204	318,252	141,459	331,971
Stock options	595,725	596,387	527,796	578,472
Total	<u>688,929</u>	<u>914,639</u>	<u>669,255</u>	<u>910,443</u>

(L) Pension, Profit Sharing & Other Post-Retirement Benefits

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, profit sharing and other post-retirement health benefit expense charged to operations aggregated approximately \$2.0 million and \$2.8 million for the second quarter of 2016 and 2015, respectively, and approximately \$5.0 million and \$5.9 million for the first half of 2016 and 2015, 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 July 2, 2016, the Company estimated that approximately \$5.5 million would be contributed to the Company's defined benefit pension plans in 2016, of which approximately \$2.6 million was contributed through the first half of 2016.

The Company's net periodic benefit cost for its defined benefit plans for the second quarter and first half of 2016 and 2015 consists of the following components:

	Second Quarter of		First Half of	
	2016	2015	2016	2015
	<i>(Dollar amounts in millions)</i>			
Service cost	\$ 0.4	\$ 0.3	\$ 0.7	\$ 0.5
Interest cost	1.5	1.6	3.0	3.2
Expected return on plan assets	(1.6)	(1.8)	(3.3)	(3.6)
Net amortization of actuarial loss	0.1	0.3	0.4	0.7
Net periodic benefit cost	<u>\$ 0.4</u>	<u>\$ 0.4</u>	<u>\$ 0.8</u>	<u>\$ 0.8</u>

There were no periodic benefit costs for the Company's post-retirement health benefit plan for the second quarter or first half of 2016 or 2015.

(M) Derivatives and Fair Value

The Company manufactures, markets and sells its products globally and a portion of the Company's sales are generated outside the United States in local currencies. The Company also incurs certain manufacturing, marketing and selling costs in international markets in local currency.

Accordingly, the Company's earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the U.S. Dollar, the Company's reporting currency. During the third quarter of 2015, the Company began to enhance its program to mitigate exposure to changes in foreign currency exchange rates by entering into foreign currency forward contracts to minimize, for a period of time, the impact on its financial results from changes in foreign exchange rates, primarily the British Pound Sterling, Canadian Dollar and the Chinese Yuan Renminbi. Additionally, the Company entered into certain foreign currency forward contracts to hedge the anticipated cash flows

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from transactions denominated in foreign currencies, primarily the Mexican Peso. This does not eliminate the impact of the volatility of foreign exchange rates.

Non-Designated Foreign Currency Contracts

All of the Company's foreign currency hedge contracts to date have been non-designated contracts. The Company manages its exposure to changes in foreign currency on a consolidated basis to take advantage of offsetting transactions and balances. These foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, which are generally one month. They are not designated as cash flow or fair value hedges under ASC 815, "Derivatives and Hedging" ("ASC 815"). These forward contracts are marked-to-market with changes in fair value recorded in the condensed consolidated statement of operations. The Company had non-designated foreign currency hedge contracts under ASC 815 outstanding with a notional amount of approximately \$24.9 million at July 2, 2016. During the second quarter of 2016, the Company recorded approximately \$0.2 million of unrealized losses related to contracts outstanding at July 2, 2016. During the first half of 2016, the unrealized losses related to contracts outstanding at July 2, 2016 was nominal. During the second quarter and first half of 2016, the Company settled non-designated foreign currency hedge contracts with a notional amount totaling approximately \$50.3 million and \$94.5 million, respectively, resulting in a realized gain upon settlement of approximately \$0.5 million during the first half of 2016 and a nominal amount during the second quarter of 2016. The gains and losses related to non-designated foreign currency hedge contracts are not material, and are included as a component of SG&A within the Company's unaudited condensed consolidated statement of operations. The gains and losses related to the non-designated foreign currency hedge contracts are included within operating activities in the unaudited condensed consolidated statement of cash flows.

ASC 815 requires all derivative instruments to be recognized at their fair value as either assets or liabilities on the balance sheet. The Company has determined the fair value of its derivative instruments using the framework prescribed by ASC 820, "Fair Value Measurements" ("ASC 820"), by considering the estimated amount it would receive or pay to sell or transfer these instruments at the reporting date and by taking into account currency exchange rates, the creditworthiness of the counterparty for assets, and the Company's creditworthiness for liabilities. Generally, the Company uses inputs that include quoted prices for similar assets or liabilities in active markets. At July 2, 2016, the Company has classified its derivative assets and liabilities within Level 2 of the fair value hierarchy prescribed by ASC 820, as discussed further below, because these observable inputs are available for substantially the full term of its derivative instruments. Neither the total derivative assets nor the total derivative liabilities were material at July 2, 2016 and December 31, 2015.

Other Fair Value Measurements and Disclosures

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The categorization of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The levels of the fair value hierarchy are described below:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs utilize inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in

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active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3 inputs are unobservable inputs for the asset or liability, allowing for situations where there is little, if any, market activity for the asset or liability.

On a recurring basis, the Company measures certain financial assets and financial liabilities at fair value, including its restricted investments, foreign currency hedge contracts, and contingent consideration. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company bases fair value upon quoted market prices, where available. Where quoted market prices or other observable inputs are not available, the Company applies valuation techniques to estimate fair value.

Measured on a Recurring Basis

Financial assets and financial liabilities measured at fair value on a recurring basis consist of the following at July 2, 2016 and December 31, 2015:

			Quoted Market Prices for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total
<i>(Dollar amounts in millions)</i>									
Assets:									
Restricted Investments	July 2, 2016	\$	3.3	\$	—	\$	—	\$	3.3
Restricted Investments	December 31, 2015		1.2		—		—		1.2
Liabilities									
Contingent Consideration	July 2, 2016	\$	—	\$	—	\$	—	\$	—
Contingent Consideration	December 31, 2015		—		—		0.2		0.2

Restricted Investments (Level 1) -- The fair value of investments is based on quoted market prices. The fair value of investments was not materially different from their cost basis at July 2, 2016 or December 31, 2015.

Contingent Consideration (Level 3) -- Contingent consideration liabilities were measured at fair value using projected revenue, discount rates, probabilities of payment and projected payment dates. This Level 3 fair value measurement was determined using an option pricing model. See Note B, *Acquisitions, Investments and Dispositions* for further discussion.

Measured on a Non-Recurring Basis

The Company remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets are comprised of long-lived assets, including property and equipment, intangible assets and goodwill. There were no material impairments during the second quarter and first half of 2016 or 2015.

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Financial Instruments Not Recorded at Fair Value

The carrying value and fair values of financial instruments not recorded at fair value in the unaudited condensed consolidated balance sheets at July 2, 2016 and December 31, 2015 were as follows:

Cash and Trade Receivables -- Cash and trade receivables are carried at their cost which approximates fair value because of their short-term nature.

Long-Term Debt -- At July 2, 2016, the fair value of the Company's long-term indebtedness was approximately \$33.1 million higher than the amount on the Company's accompanying unaudited condensed consolidated balance sheet, before approximately \$2.8 million of unamortized debt premium, approximately \$4.4 million of unamortized debt discount, and approximately \$12.9 million of unamortized debt issuance costs. At December 31, 2015, the fair value of the Company's long-term indebtedness was approximately \$25.7 million higher than the amount on the Company's consolidated balance sheet, before approximately \$3.4 million of unamortized debt premium, approximately \$4.9 million of unamortized debt discount, and approximately \$13.5 million of unamortized debt issuance costs. The Company determined the fair market value of its 8.5% Notes using available market quotes (Level 1). For the Company's remaining outstanding indebtedness (including outstanding borrowings under the ABL Facility and the Term Loan Facility), the Company believes that the carrying value of such indebtedness approximated the fair value based upon the variable interest rates associated with certain of these debt obligations and the Company's estimated credit risk.

(N) Guarantor Financial Statements

The Company's 8.5% Notes are guaranteed by each of the Company's current and future domestic subsidiaries that guarantee the Company's obligations under its senior secured credit facilities (the "Guarantors"). The Guarantors are wholly-owned, either directly or indirectly, by the Company and jointly and severally guarantee the Company's obligation under the 8.5% Notes. None of the Company's foreign subsidiaries guarantee the 8.5% Notes.

Consolidating balance sheets related to Nortek, the Guarantors and non-Guarantor subsidiaries as of July 2, 2016 and December 31, 2015, the related consolidating statements of operations and comprehensive income (loss) for the second quarter and first half of 2016 and 2015, and the related cash flows for the first half of 2016 and 2015 are reflected below in order to comply with the reporting requirements for guarantor subsidiaries.

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Condensed Consolidating Balance Sheet as of July 2, 2016

	Guarantor		Non-Guarantor		Nortek
	Nortek	Subsidiaries	Subsidiaries	Eliminations	Consolidated
	(Dollar amounts in millions)				
ASSETS:					
Current Assets:					
Unrestricted cash and cash equivalents	\$ 2.9	\$ 1.1	\$ 35.6	\$ —	\$ 39.6
Restricted cash	0.1	0.1	2.3	—	2.5
Accounts receivable, less allowances	—	328.2	55.7	—	383.9
Intercompany receivables	3.3	—	126.2	(129.5)	—
Inventories, net	—	298.3	83.6	(6.9)	375.0
Prepaid expenses	5.0	9.6	3.5	—	18.1
Other current assets	2.6	8.2	12.6	—	23.4
Total current assets	13.9	645.5	319.5	(136.4)	842.5
Property and Equipment, at Cost:					
Total property and equipment, net	10.3	161.3	58.3	—	229.9
Other Long-term Assets:					
Investment in subsidiaries and long-term receivable from (to) subsidiaries	1,441.4	120.5	—	(1,561.9)	—
Goodwill	—	464.5	41.0	—	505.5
Intangible assets, less accumulated amortization	—	539.1	46.0	(8.4)	576.7
Deferred tax asset	27.4	—	0.7	(28.1)	—
Other assets	1.7	17.1	0.8	0.7	20.3
Total other long-term assets	1,470.5	1,141.2	88.5	(1,597.7)	1,102.5
Total Assets	\$ 1,494.7	\$ 1,948.0	\$ 466.3	\$ (1,734.1)	\$ 2,174.9
LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT):					
Current Liabilities:					
Short-term bank obligations	\$ —	\$ —	\$ 0.2	\$ —	\$ 0.2
Current maturities of long-term debt	6.2	0.8	—	—	7.0
Accounts payable	4.6	136.1	141.8	—	282.5
Accrued expenses, taxes, and deferred revenue	43.8	135.6	44.7	—	224.1
Intercompany payables	—	129.5	—	(129.5)	—
Total current liabilities	54.6	402.0	186.7	(129.5)	513.8
Other Liabilities:					
Deferred income taxes	—	100.3	12.5	(30.0)	82.8
Other long-term liabilities	49.5	111.0	22.0	—	182.5
Long-term intercompany payables	—	—	126.1	(126.1)	—
	49.5	211.3	160.6	(156.1)	265.3
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities					
	1,354.7	3.4	1.8	—	1,359.9
Stockholders' investment (deficit)	35.9	1,331.3	117.2	(1,448.5)	35.9
Total Liabilities and Stockholders' Investment (Deficit)	\$ 1,494.7	\$ 1,948.0	\$ 466.3	\$ (1,734.1)	\$ 2,174.9

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Condensed Consolidating Balance Sheet as of December 31, 2015

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Nortek Consolidated
	(Dollar amounts in millions)				
ASSETS:					
Current Assets:					
Unrestricted cash and cash equivalents	\$ 0.7	\$ 1.1	\$ 22.8	\$ —	\$ 24.6
Restricted cash	0.1	0.2	—	—	0.3
Accounts receivable, less allowances	—	273.8	66.2	—	340.0
Intercompany receivables	4.9	—	89.8	(94.7)	—
Inventories, net	—	294.9	80.7	(7.5)	368.1
Prepaid expenses	2.7	11.2	5.4	—	19.3
Other current assets	0.1	8.7	10.3	—	19.1
Total current assets	8.5	589.9	275.2	(102.2)	771.4
Property and Equipment, at Cost:					
Total property and equipment, net	17.0	157.1	54.9	—	229.0
Other Long-term Assets:					
Investment in subsidiaries and long-term receivable from (to) subsidiaries	1,409.9	82.7	—	(1,492.6)	—
Goodwill	—	464.5	41.0	—	505.5
Intangible assets, less accumulated amortization	—	568.2	49.7	(8.8)	609.1
Deferred tax asset	38.0	—	0.6	(38.6)	—
Other assets	1.7	12.3	0.8	0.6	15.4
Total other long-term assets	1,449.6	1,127.7	92.1	(1,539.4)	1,130.0
Total Assets	\$ 1,475.1	\$ 1,874.7	\$ 422.2	\$ (1,641.6)	\$ 2,130.4
LIABILITIES AND STOCKHOLDERS' INVESTMENT (DEFICIT):					
Current Liabilities:					
Short-term bank obligations	\$ —	\$ —	\$ 0.5	\$ —	\$ 0.5
Current maturities of long-term debt	6.1	0.8	—	—	6.9
Accounts payable	2.4	142.2	124.6	—	269.2
Accrued expenses, taxes, and deferred revenue	38.1	131.8	44.6	—	214.5
Intercompany payables	—	94.7	—	(94.7)	—
Total current liabilities	46.6	369.5	169.7	(94.7)	491.1
Other Liabilities:					
Deferred income taxes	—	105.4	12.3	(40.8)	76.9
Other long-term liabilities	49.9	107.8	20.8	—	178.5
Long-term intercompany payables	—	—	110.0	(110.0)	—
	49.9	213.2	143.1	(150.8)	255.4
Notes, Mortgage Notes and Obligations Payable, Less Current Maturities	1,366.3	3.5	1.8	—	1,371.6
Stockholders' investment (deficit)	12.3	1,288.5	107.6	(1,396.1)	12.3
Total Liabilities and Stockholders' Investment (Deficit)	\$ 1,475.1	\$ 1,874.7	\$ 422.2	\$ (1,641.6)	\$ 2,130.4

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the second quarter of 2016

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>				
Net Sales	\$ —	\$ 603.3	\$ 211.8	\$ (130.0)	\$ 685.1
Cost and Expenses:					
Cost of revenues	—	422.9	180.8	(131.2)	472.5
Selling, general and administrative expense, net	20.9	100.7	20.7	—	142.3
Amortization of intangible assets	—	15.8	1.9	(0.2)	17.5
	<u>20.9</u>	<u>539.4</u>	<u>203.4</u>	<u>(131.4)</u>	<u>632.3</u>
Operating (loss) earnings	(20.9)	63.9	8.4	1.4	52.8
Net interest expense	(22.7)	(0.7)	—	—	(23.4)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	(43.6)	63.2	8.4	1.4	29.4
Charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	73.0	(18.5)	—	(54.5)	—
Earnings (loss) before provision (benefit) for income taxes	29.4	44.7	8.4	(53.1)	29.4
Provision (benefit) for income taxes	11.0	16.0	3.6	(19.6)	11.0
Net earnings (loss)	<u>\$ 18.4</u>	<u>\$ 28.7</u>	<u>\$ 4.8</u>	<u>\$ (33.5)</u>	<u>\$ 18.4</u>
Other comprehensive income (loss), net of tax:					
Currency translation adjustment	(3.1)	—	(3.0)	3.0	(3.1)
Total pension liability adjustments, net of tax	0.2	—	0.1	(0.1)	0.2
Other comprehensive income (loss)	<u>(2.9)</u>	<u>—</u>	<u>(2.9)</u>	<u>2.9</u>	<u>(2.9)</u>
Comprehensive income (loss)	<u><u>\$ 15.5</u></u>	<u><u>\$ 28.7</u></u>	<u><u>\$ 1.9</u></u>	<u><u>\$ (30.6)</u></u>	<u><u>\$ 15.5</u></u>

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the first half of 2016

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>				
Net Sales	\$ —	\$ 1,129.6	\$ 406.9	\$ (237.5)	\$ 1,299.0
Cost and Expenses:					
Cost of revenues	—	794.0	343.0	(238.1)	898.9
Selling, general and administrative expense, net	34.7	207.2	41.9	—	283.8
Amortization of intangible assets	—	31.3	3.7	(0.4)	34.6
	<u>34.7</u>	<u>1,032.5</u>	<u>388.6</u>	<u>(238.5)</u>	<u>1,217.3</u>
Operating (loss) earnings	(34.7)	97.1	18.3	1.0	81.7
Net interest expense	(45.8)	(1.3)	—	—	(47.1)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	(80.5)	95.8	18.3	1.0	34.6
Charges and allocations to subsidiaries and equity in subsidiaries' earnings (loss) before income taxes	115.1	(31.8)	(0.2)	(83.1)	—
Earnings (loss) before provision (benefit) for income taxes	34.6	64.0	18.1	(82.1)	34.6
Provision (benefit) for income taxes	13.6	23.1	7.5	(30.6)	13.6
Net earnings (loss)	<u>\$ 21.0</u>	<u>\$ 40.9</u>	<u>\$ 10.6</u>	<u>\$ (51.5)</u>	<u>\$ 21.0</u>
Other comprehensive income (loss), net of tax:					
Currency translation adjustment	(0.9)	—	(1.2)	1.2	(0.9)
Total pension liability adjustments, net of tax	—	—	0.2	(0.2)	—
Other comprehensive income (loss)	<u>(0.9)</u>	<u>—</u>	<u>(1.0)</u>	<u>1.0</u>	<u>(0.9)</u>
Comprehensive income (loss)	<u>\$ 20.1</u>	<u>\$ 40.9</u>	<u>\$ 9.6</u>	<u>\$ (50.5)</u>	<u>\$ 20.1</u>

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the second quarter of 2015

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>				
Net Sales	\$ —	\$ 612.0	\$ 225.8	\$ (133.9)	\$ 703.9
Cost and Expenses:					
Cost of revenues	—	445.5	193.3	(133.0)	505.8
Selling, general and administrative expense, net	12.6	108.1	26.6	—	147.3
Amortization of intangible assets	—	14.8	1.5	(0.2)	16.1
	<u>12.6</u>	<u>568.4</u>	<u>221.4</u>	<u>(133.2)</u>	<u>669.2</u>
Operating (loss) earnings	(12.6)	43.6	4.4	(0.7)	34.7
Net interest expense	(24.0)	(0.9)	—	—	(24.9)
Loss from debt retirement	(14.8)	—	—	—	(14.8)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	(51.4)	42.7	4.4	(0.7)	(5.0)
Charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	46.4	(20.9)	0.1	(25.6)	—
(Loss) earnings before (benefit) provision for income taxes	(5.0)	21.8	4.5	(26.3)	(5.0)
(Benefit) provision for income taxes	(2.7)	7.9	3.2	(11.1)	(2.7)
Net (loss) earnings	\$ (2.3)	\$ 13.9	\$ 1.3	\$ (15.2)	\$ (2.3)
Other comprehensive income (loss), net of tax:					
Currency translation adjustment	2.3	—	2.3	(2.3)	2.3
Total pension liability adjustments, net of tax	0.4	—	0.3	(0.3)	0.4
Other comprehensive income (loss)	2.7	—	2.6	(2.6)	2.7
Comprehensive income (loss)	<u>\$ 0.4</u>	<u>\$ 13.9</u>	<u>\$ 3.9</u>	<u>\$ (17.8)</u>	<u>\$ 0.4</u>

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
For the first half of 2015

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>				
Net Sales	\$ —	\$ 1,094.8	\$ 413.5	\$ (231.7)	\$ 1,276.6
Cost and Expenses:					
Cost of revenues	—	793.6	349.6	(231.5)	911.7
Selling, general and administrative expense, net	25.4	214.7	50.5	—	290.6
Amortization of intangible assets	—	29.5	2.8	(0.4)	31.9
	<u>25.4</u>	<u>1,037.8</u>	<u>402.9</u>	<u>(231.9)</u>	<u>1,234.2</u>
Operating (loss) earnings	(25.4)	57.0	10.6	0.2	42.4
Net interest expense	(50.3)	(1.8)	—	—	(52.1)
Loss from debt retirement	(14.8)	—	—	—	(14.8)
(Loss) income before charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	(90.5)	55.2	10.6	0.2	(24.5)
Charges and allocations to subsidiaries and equity in subsidiaries' (loss) earnings before income taxes	66.0	(32.8)	(0.1)	(33.1)	—
(Loss) earnings before (benefit) provision for income taxes	(24.5)	22.4	10.5	(32.9)	(24.5)
(Benefit) provision for income taxes	(8.3)	9.3	5.8	(15.1)	(8.3)
Net (loss) earnings	<u>\$ (16.2)</u>	<u>\$ 13.1</u>	<u>\$ 4.7</u>	<u>\$ (17.8)</u>	<u>\$ (16.2)</u>
Other comprehensive (loss) income, net of tax:					
Currency translation adjustment	(3.8)	—	(2.9)	2.9	(3.8)
Total pension liability adjustments, net of tax	0.4	—	0.3	(0.3)	0.4
Other comprehensive (loss) income	(3.4)	—	(2.6)	2.6	(3.4)
Comprehensive (loss) income	<u>\$ (19.6)</u>	<u>\$ 13.1</u>	<u>\$ 2.1</u>	<u>\$ (15.2)</u>	<u>\$ (19.6)</u>

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Condensed Consolidating Cash Flow Statement
For the first half of 2016

	<u>Nortek</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Nortek Consolidated</u>
	<i>(Dollar amounts in millions)</i>			
Cash Flows from operating activities:				
Net cash (used in) provided by operating activities	\$ (106.7)	\$ 151.6	\$ 9.9	\$ 54.8
Cash Flows from investing activities:				
Capital expenditures	(0.8)	(13.0)	(7.1)	(20.9)
Net cash paid for businesses acquired and dispositions	—	(1.0)	—	(1.0)
Net cash paid for equity investments	—	(4.0)	—	(4.0)
Net cash paid for acquisition of intangible assets	—	(0.9)	—	(0.9)
Proceeds from the sale of property and equipment	—	2.3	0.1	2.4
Change in restricted cash and marketable securities	0.1	0.1	(2.3)	(2.1)
Other, net	—	0.9	—	0.9
Net cash used in investing activities	(0.7)	(15.6)	(9.3)	(25.6)
Cash Flows from financing activities:				
Proceeds from ABL and other borrowings	188.0	—	1.1	189.1
Payment of ABL and other borrowings	(200.1)	(0.4)	(1.5)	(202.0)
Fees paid in connection with debt facilities	(1.0)	—	—	(1.0)
Net use from equity transactions	(0.3)	—	—	(0.3)
Long-term intercompany advances and loans	123.0	(135.6)	12.6	—
Net cash provided by (used in) financing activities	109.6	(136.0)	12.2	(14.2)
Net change in unrestricted cash and cash equivalents	2.2	—	12.8	15.0
Unrestricted cash and cash equivalents at the beginning of the period	0.7	1.1	22.8	24.6
Unrestricted cash and cash equivalents at the end of the period	\$ 2.9	\$ 1.1	\$ 35.6	\$ 39.6

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Condensed Consolidating Cash Flow Statement
For the first half of 2015

	Nortek	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Nortek Consolidated
	<i>(Dollar amounts in millions)</i>			
Cash Flows from operating activities:				
Net cash (used in) provided by operating activities	\$ (92.5)	\$ 11.7	\$ (0.1)	\$ (80.9)
Cash Flows from investing activities:				
Capital expenditures	(1.1)	(15.7)	(3.2)	(20.0)
Net cash paid for businesses acquired	—	(51.8)	—	(51.8)
Intercompany contributions	(0.9)	—	0.9	—
Proceeds from the sale of property and equipment	—	0.1	—	0.1
Change in restricted cash and marketable securities	—	0.1	—	0.1
Other, net	—	(0.8)	0.2	(0.6)
Net cash used in investing activities	(2.0)	(68.1)	(2.1)	(72.2)
Cash Flows from financing activities:				
Proceeds from ABL and other borrowings	283.0	—	1.1	284.1
Payment of ABL and other borrowings	(155.1)	(1.6)	(1.3)	(158.0)
Net proceeds from borrowings under the senior secured term loan facility due 2020	261.8	—	—	261.8
Redemption of the 10% Senior Notes due 2018, including redemption premium	(262.5)	—	—	(262.5)
Fees paid in connection with debt facilities	(2.7)	—	—	(2.7)
Net use from equity transactions	(1.9)	—	—	(1.9)
Long-term intercompany advances and loans	(41.3)	53.4	(12.1)	—
Other, net	0.1	—	—	0.1
Net cash provided by (used in) financing activities	81.4	51.8	(12.3)	120.9
Net change in unrestricted cash and cash equivalents	(13.1)	(4.6)	(14.5)	(32.2)
Unrestricted cash and cash equivalents at the beginning of the period	17.5	5.1	35.8	58.4
Unrestricted cash and cash equivalents at the end of the period	\$ 4.4	\$ 0.5	\$ 21.3	\$ 26.2

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

Forward-Looking Statements

This quarterly report on Form 10-Q contains "forward-looking statements" about Nortek, Inc. ("Nortek") and its subsidiaries (the "Company"). When used in this discussion and throughout this document, words such as "intend," "plan," "estimate," "believe," "will," "could," "may," "seek," "anticipate," and "expect" or other similar expressions are intended to identify forward-looking statements, which are provided "safe harbor" protection under the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on our current plans and expectations and involve risks and uncertainties, over which we have no control, that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and operating results to differ include: failure to complete the merger in a timely manner or at all; global economic conditions; the level of domestic and foreign construction and remodeling activity affecting residential and commercial markets; the availability and cost of certain raw materials and purchased components (including, among others, steel, copper, aluminum, electronics, motors, plastics, compressors, various chemicals and paints, and packaging); compliance with conflict minerals regulations; weather fluctuations; acquisition and integration risks; potential restructurings and business shutdowns; competition; foreign economic and political conditions; increased costs associated with regulatory compliance, including environmental, health and safety laws and the U.S. Foreign Corrupt Practices Act; foreign currency fluctuations; international business practices; maintaining good relationships with customers and suppliers; labor disruptions; product innovations and improvements; product and warranty liability claims; product recalls or reworks; employment levels; intellectual property rights; security breaches; maintaining pension plans; changes in tax law; and our ability to service our indebtedness. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise (except as required by applicable securities laws). All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The following discussion should be read in conjunction with our annual report on Form 10-K for the fiscal year ended December 31, 2015 ("2015 Form 10-K"), including without limitation statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the risk factors described herein and in our 2015 Form 10-K, and any further disclosures we make on related subjects in our 8-K or other reports filed with the Securities and Exchange Commission (the "SEC").

Executive Overview

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

Organization

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

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

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

As previously announced, on July 6, 2016, we entered into a merger agreement with Melrose Industries PLC, a United Kingdom listed public company and its newly created wholly owned subsidiary, Nevada Corp., (collectively, "Melrose") for \$86.00 per share in cash (the "Purchase Price"), or an estimated total enterprise value of approximately \$2.8 billion. The transaction was approved by Melrose’s shareholders on July 25, 2016 and is expected to close by the end of August 2016.

Acquisitions

We have made the following acquisitions since January 1, 2015:

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

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

Additionally, on May 19, 2016, we completed the acquisition of certain assets of Nuiku, Inc. ("Nuiku"), which was a privately-owned company that had developed a data driven platform and cloud based application program interface that enables natural language processing for multiple products ("NLP Software"). The acquired NLP Software is expected to be integrated with certain of our SCS and AQH products. On May 2, 2016, we purchased certain preferred stock of MiOS Limited ("MiOS") which represented an ownership of approximately 25% on a fully-diluted basis. MiOS is a global technology company focused on developing and distributing advanced control and monitoring solutions for the home and small enterprise markets. In addition, in connection with the convertible preferred stock investment, we entered into a commercial agreement under which MiOS will work with our AQH, SCS, and AVC segments to develop lifestyle-driven solutions for the connected-home for various customer bases, including builders, electricians and installing dealers.

See Note B, "*Acquisitions, Investments and Dispositions*", to the unaudited condensed consolidated financial statements included elsewhere in this report for a detailed description of these acquisitions.

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Basis of Presentation

We operate on a calendar year, and each interim period is comprised of two 4-week periods and one 5-week period, with each week ending on a Saturday. Our fiscal year always begins on January 1 and ends on December 31. As a result, the Company's first and fourth quarters may have more or less days included than a traditional 4-4-5 fiscal calendar, which consists of 91 days. The three months ended July 2, 2016 ("second quarter of 2016") and June 27, 2015 ("second quarter of 2015") each include 91 days. The first six months ended July 2, 2016 ("first half of 2016") and June 27, 2015 ("first half of 2015") included 184 days and 178 days, respectively.

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

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

Cost and Expense Components

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

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

Results of Operations

Net Sales

Net sales were approximately \$685.1 million and \$703.9 million for the second quarter of 2016 and 2015, respectively, and were approximately \$1,299.0 million and \$1,276.6 million for the first half of 2016 and 2015, respectively. As discussed further below in our *Segment Discussion*, the decrease in net sales for the second quarter of 2016 as compared to the second quarter of 2015 is

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primarily the result of a decrease in net sales within the CAS and AVC segments principally driven by lower volume of shipments and product discontinuation initiatives implemented in 2015. The increase in net sales for the first half of 2016 as compared to the first half of 2015 is primarily the result of increased sales in all of our segments due to both higher shipments and product mix, with the exception of the CAS and AVC segments. Net sales for the first half of 2016 were also favorably impacted by our 2015 and 2016 acquisitions by approximately \$5.7 million. The first half comparison of net sales was impacted by five additional shipping days in the first half of 2016 as compared to the first half of 2015, as well as by lower sales resulting from several restructuring and product discontinuation initiatives implemented in 2015.

Cost of Revenues

Cost of revenues was approximately \$472.5 million and \$505.8 million for the second quarter of 2016 and 2015, respectively, and was approximately \$898.9 million and \$911.7 million for the first half of 2016 and 2015, respectively. As a percentage of net sales, cost of revenues was approximately 69.0% and 71.9% for the second quarter of 2016 and 2015, respectively, and was approximately 69.2% and 71.4% for the first half of 2016 and 2015, respectively. Exit and transformation costs recorded to cost of revenues during the second quarter and first half of 2015 were approximately \$9.8 million and \$12.6 million, respectively. There were nominal exit and transformation costs recorded to cost of revenues for the second quarter and first half of 2016.

Cost of revenues as a percentage of net sales decreased in the second quarter and first half of 2016 as compared to the same periods of 2015 primarily due to changes in the relative mix of products sold, a decrease in certain commodity prices, favorable overhead absorption, as well as a decrease in exit and transformation costs.

Selling, General and Administrative Expense, net

Selling, general and administrative expense, net was approximately \$142.3 million and \$147.3 million for the second quarter of 2016 and 2015, respectively, and was approximately \$283.8 million and \$290.6 million for the first half of 2016 and 2015, respectively. As a percentage of net sales, selling, general and administrative expense, net was approximately at 20.8% and 20.9% for the second quarter of 2016 and 2015, respectively, and was approximately 21.8% and 22.8% for the first half of 2016 and 2015, respectively. During the second quarter of 2016, we recorded acquisition and disposition fees and expenses of approximately \$6.5 million, as compared to approximately \$0.3 million and \$0.4 million in the second quarter and first half of 2015, respectively. Exit and transformation costs recorded to selling, general and administrative expense, net during the second quarter and first half of 2015 were approximately \$7.3 million and \$11.0 million, respectively. During the second quarter of 2016, we received a reduction from a vendor of approximately \$2.9 million related to contractual fees previously charged by this vendor and recorded a benefit to selling, general and administrative expense, net. These amounts were considered transformation costs during the second quarter of 2016. We had previously accrued and expensed these contractual fees to selling, general and administrative expense, net throughout 2015. Additionally, during the second quarter of 2016, we entered into an arrangement with a third party under which we are entitled to certain non-recurring payments that will be paid in 2016. During the second quarter of 2016, we received approximately \$2.0 million and this amount was recorded as a reduction to selling, general and administrative expense, net.

Selling, general and administrative expense, net as a percentage of net sales decreased in the first half of 2016 as compared to the same periods of 2015 primarily as a result of inefficiencies in warehousing costs experienced in the first half of 2015, decreased exit and transformation costs, headcount reductions, and an increase in net sales without a proportionate increase in SG&A due to the fixed nature of certain expenses. The decrease was partially offset by an increase in acquisition and disposition fees and expenses, as well as product development costs.

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Amortization of Intangible Assets

Amortization of intangible assets was approximately \$17.5 million and \$16.1 million for the second quarter of 2016 and 2015, respectively, and was approximately \$34.6 million and \$31.9 million for the first half of 2016 and 2015, respectively.

The increase in amortization of intangible assets in the second quarter and first half of 2016 as compared to the same periods of 2015 is primarily the result of changes in estimated useful lives of certain assets during the second half of 2015, as well as the additional amortization from intangible assets acquired in connection with acquisitions completed in 2015 and 2016.

Net Interest Expense

Net interest expense was approximately \$23.4 million and \$24.9 million for the second quarter of 2016 and 2015, respectively, and was approximately \$47.1 million and \$52.1 million for the first half of 2016 and 2015, respectively. Changes in net interest expense are primarily the result of changes in the average principal balances and weighted average interest rates of our outstanding debt, resulting largely from the refinancing of our 10% Senior Notes due 2018 (the "10% Notes") in the second quarter of 2015.

Loss from Debt Retirement

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

Provision (Benefit) for Income Taxes

The provision for income taxes was approximately \$11.0 million and \$13.6 million for the second quarter and first half of 2016, respectively, as compared to a benefit from income taxes of approximately \$2.7 million and \$8.3 million for the second quarter and first half of 2015, respectively. The effective income tax rate of approximately 39.3% for the first half of 2016 differs from the United States federal statutory rate of 35% principally as a result of losses in certain jurisdictions that cannot be benefited. The effective income tax rate of a benefit of approximately 33.9% for the first half of 2015 differs from the United States federal statutory rate of 35% principally as a result of the impact of lower foreign tax rates and losses in certain jurisdictions that cannot be benefited, partially offset by non-deductible expenses.

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Segment Discussion

Net sales and operating earnings (loss) by segment for the second quarter of 2016 and 2015 were as follows:

	Net Sales				Operating Earnings (Loss)			
	Second Quarter of		Change		Second Quarter of		Change	
	2016	2015	\$	%	2016	2015	\$	%
	<i>(Dollar amounts in millions)</i>							
AQH	\$ 157.5	\$ 151.8	\$ 5.7	3.8 %	\$ 19.3	\$ 19.4	\$ (0.1)	(0.5)%
SCS	146.4	145.1	1.3	0.9	20.3	18.5	1.8	9.7
ERG	94.2	85.8	8.4	9.8	25.3	15.4	9.9	64.3
RCH	165.8	169.9	(4.1)	(2.4)	8.5	(2.1)	10.6	*
CAS	93.7	115.3	(21.6)	(18.7)	2.4	1.1	1.3	*
AVC	27.5	36.0	(8.5)	(23.6)	(0.9)	(4.1)	3.2	78.0
	<u>\$ 685.1</u>	<u>\$ 703.9</u>	<u>\$ (18.8)</u>	<u>(2.7)%</u>	<u>74.9</u>	<u>48.2</u>	<u>26.7</u>	<u>55.4</u>
Unallocated					(22.1)	(13.5)	(8.6)	(63.7)
					<u>\$ 52.8</u>	<u>\$ 34.7</u>	<u>\$ 18.1</u>	<u>52.2 %</u>

* not meaningful or not applicable

Net sales and operating earnings (loss) by segment for the first half of 2016 and 2015 were as follows:

	Net Sales				Operating Earnings (Loss)			
	First Half of		Change		First Half of		Change	
	2016	2015	\$	%	2016	2015	\$	%
	<i>(Dollar amounts in millions)</i>							
AQH	\$ 308.8	\$ 290.1	\$ 18.7	6.4%	\$ 35.5	\$ 32.8	\$ 2.7	8.2%
SCS	256.8	241.6	15.2	6.3	28.5	23.1	5.4	23.4
ERG	176.6	156.6	20.0	12.8	39.6	23.4	16.2	69.2
RCH	312.8	303.2	9.6	3.2	9.7	(7.8)	17.5	*
CAS	189.8	216.6	(26.8)	(12.4)	7.3	4.0	3.3	82.5
AVC	54.2	68.5	(14.3)	(20.9)	(2.8)	(6.5)	3.7	56.9
	<u>\$ 1,299.0</u>	<u>\$ 1,276.6</u>	<u>\$ 22.4</u>	<u>1.8%</u>	<u>117.8</u>	<u>69.0</u>	<u>48.8</u>	<u>70.7</u>
Unallocated					(36.1)	(26.6)	(9.5)	(35.7)
					<u>\$ 81.7</u>	<u>\$ 42.4</u>	<u>\$ 39.3</u>	<u>92.7%</u>

* not meaningful or not applicable

Second quarter and first half of 2016 as compared to the same periods of 2015

AQH Segment

Net sales in the AQH segment increased approximately \$5.7 million, or 3.8%, in the second quarter of 2016 as compared to the second quarter of 2015 and increased approximately \$18.7 million, or 6.4%, in the first half of 2016 as compared to the first half of 2015. For the second quarter and first half of 2016, changes in foreign currency exchange rates had a negative impact of approximately \$1.4 million and \$4.4 million, respectively, on net sales in Canada, Europe, and other regions. Excluding the effect of changes in foreign currency exchange rates, net sales in the AQH segment for the second quarter and first half of 2016 increased approximately \$7.1 million and \$23.1 million, respectively, as compared to the same periods of 2015. Sales increased in North America for the second quarter and first half of 2016 primarily due to higher wholesale, retail, and appliance sales in the United States. Sales increased in other regions mainly driven by higher sales in China.

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Operating earnings increased approximately \$2.7 million, or 8.2%, in the first half of 2016 as compared to the first half of 2015. This year to date increase is primarily as a result of higher net sales without a proportionate increase in expenses due to the fixed nature of certain expenses and changes in sales channel mix. The year to date increase in operating earnings was partially offset by increases in product development and product liability costs.

SCS Segment

Net sales in the SCS segment increased approximately \$1.3 million, or 0.9%, in the second quarter of 2016 as compared to the second quarter of 2015 and increased approximately \$15.2 million, or 6.3%, in the first half of 2016 as compared to the same period of 2015. The increase in net sales was primarily driven by increased shipments of security and home automation products to both OEM customers and dealers, increased sales of access control equipment and systems to dealers, and approximately \$2.3 million and \$3.7 million in revenues during the second quarter and first half of 2016, respectively, associated with growth in mobile PERS products as a result of the acquisition of Numera in 2015. The increase in net sales was partially offset by a decline in sales due to acquisition and consolidation by one large OEM customer of another, resulting in the use of a single security platform.

Operating earnings increased approximately \$1.8 million, or 9.7%, in the second quarter of 2016 as compared to the second quarter of 2015, and increased approximately \$5.4 million, or 23.4%, in the first half of 2016 as compared to the same period of 2015. Increased sales volume, changes in product mix, decreased VAT taxes, decreased legal and other professional fees, as well as higher net sales without a proportionate increase in expenses due to the fixed nature of certain expenses contributed to the increase in operating earnings in this segment. Legal and professional fees decreased approximately \$0.7 million and \$2.0 million in the second quarter and first half of 2016, respectively, as compared to the same periods of 2015 related, in part, to the U.S. Foreign Corrupt Practices Act investigation discussed in Note G, *Commitments and Contingencies*, to the unaudited condensed consolidated financial statements included elsewhere herein. Partially offsetting this increase was the acquisition of Numera, which contributed an operating loss of approximately \$0.7 million and \$2.0 million (including approximately \$0.6 million and \$1.1 million of amortization expense) to the second quarter and first half of 2016, respectively.

ERG Segment

Net sales in the ERG segment increased approximately \$8.4 million, or 9.8%, in the second quarter of 2016 as compared to the second quarter of 2015, and increased approximately \$20.0 million, or 12.8%, in the first half of 2016 as compared to the same period of 2015. The change in net sales for the second quarter and first half of 2016 as compared to the same periods of 2015 was primarily attributable to the net effect of an increase in Ergotron branded sales, partially offset by a decline in original design manufacturer sales. The increase in net sales for Ergotron branded products was primarily driven by volume increases in ergonomic sit-stand products and medical carts mainly for the office and healthcare markets. The incremental impact of the acquisition of Anthro contributed approximately \$2.0 million to net sales for the first half of 2016 as compared to the same period of 2015.

Operating earnings increased approximately \$9.9 million, or 64.3%, in the second quarter of 2016 as compared to the second quarter of 2015, and increased approximately \$16.2 million, or 69.2%, in the first half of 2016 as compared to the same period of 2015. The increase in operating earnings is primarily the result of increased volume and the relative mix of products sold within the segment, as well as manufacturing efficiencies. Additionally, during the second quarter of 2016, we received approximately \$2.0 million related to an arrangement with a third party and this amount was recorded as a reduction to SG&A. The acquisition of Anthro did not have a significant incremental contribution to operating earnings in the first half of 2016.

RCH Segment

Net sales decreased approximately \$4.1 million, or 2.4%, in the second quarter of 2016 as compared to the second quarter of 2015, and increased approximately \$9.6 million, or 3.2%, in the first half of 2016 as compared to the first half of 2015. Net sales were

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negatively impacted by changes in foreign exchange rates of approximately \$0.7 million and \$2.0 million during the second quarter and first half of 2016, respectively, as compared to the same periods of 2015. The decrease in net sales during the second quarter of 2016 as compared to 2015 is primarily due to lower sales volume related to cooler spring temperatures, as well as certain regulatory pre-build shipments made during the second quarter of 2015 and the impact of product discontinuation initiatives implemented in 2015 in the segment's European operations. The increase in net sales during the first half of 2016 as compared to 2015 is due to higher residential sales as a result of a new customer added during the fourth quarter of 2015, as well as higher sales to other customers including the impact of a decrease in volume during the first quarter of 2015 due to a shift in demand resulting from customer requests during the fourth quarter of 2014. This increase in net sales was partially offset by the impact of certain products that were discontinued in 2015 in the RCH segment's European operations and a decrease in commercial sales due to a mild winter, resulting in lower sales of heating equipment.

Operating earnings increased approximately \$10.6 million and \$17.5 million in the second quarter and first half of 2016, respectively, as compared to the same periods of 2015. The increase in operating earnings reflects a decrease in restructuring and transformation costs in the second quarter and first half of 2016 as compared to the same periods of 2015, changes in product and customer mix, inefficiencies in freight and warehousing costs experienced in the first half of 2015, lower legal expenses, favorable commodities pricing during 2016, and in the first half of 2016, an increase in sales volume. During the second quarter of 2016, we received a reduction from a vendor of approximately \$2.9 million related to contractual fees previously charged by this vendor and recorded a benefit to selling, general and administrative expense, net. These amounts were considered transformation costs during the second quarter of 2016. We had previously accrued and expensed these contractual fees to selling, general and administrative expense, net throughout 2015. Exit and transformation costs for the second quarter and first half of 2015 were approximately \$9.1 million and \$14.2 million, respectively.

CAS Segment

Net sales decreased approximately \$21.6 million, or 18.7%, in the second quarter of 2016 as compared to the second quarter of 2015 and decreased approximately \$26.8 million, or 12.4%, in the first half of 2016 as compared to the first half of 2015. Net sales were negatively impacted by changes in foreign exchange rates of approximately \$0.2 million and \$0.7 million in the second quarter and first half of 2016, respectively, as compared to the same periods of 2015. This decline in net sales is primarily the result of the planned discontinuation of certain products, which contributed approximately \$13.8 million and \$18.2 million to the decrease in net sales for the second quarter and first half of 2016, respectively, as well as continued lower sales to a major customer totaling approximately \$7.6 million and \$11.4 million in the second quarter and first half of 2016, respectively. This decline was partially offset by increased sales to other customers in the CAS segment, primarily in the data center market. Backlog for CAS products expected to be filled within the next twelve months was approximately \$200.3 million, \$194.5 million, and \$243.4 million at July 2, 2016, December 31, 2015, and June 27, 2015, respectively. Backlog related to our major customer noted above was approximately \$0.3 million, \$0.9 million, and \$6.1 million at July 2, 2016, December 31, 2015, and June 27, 2015, respectively.

Operating earnings in the CAS segment increased approximately \$1.3 million in the second quarter of 2016 as compared to the same period of 2015 and increased approximately \$3.3 million, or 82.5%, in the first half of 2016 as compared to the first half of 2015. The increase in operating earnings is primarily the result of changes in volume and mix and lower operating costs due to the 2015 restructuring activities within the segment, as well as a decrease in exit and transformation costs of approximately \$5.8 million and \$6.7 million during the second quarter and first half of 2016, respectively, as compared to the same periods of 2015. This increase was partially offset by increased product development costs.

AVC Segments

Net sales in the AVC segments decreased approximately \$8.5 million, or 23.6%, in the second quarter of 2016 as compared to the second quarter of 2015 and decreased approximately \$14.3 million, or 20.9%, in the first half of 2016 as compared to the first half

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of 2015. The decrease in net sales was primarily driven by the disposition in the third quarter of 2015 of our TV One subsidiaries which contributed approximately \$3.9 million and \$7.8 million to net sales in the second quarter and first half of 2015, respectively, as well as product discontinuations.

Operating losses decreased approximately \$3.2 million, or 78.0%, in the second quarter of 2016 as compared to the second quarter of 2015 and decreased approximately \$3.7 million, or 56.9%, in the first half of 2016 as compared to the first half of 2015. This decrease is primarily the result of a decrease in operational costs and headcount associated with the restructuring and merger of Gefen into Core Brands, as well as the sale of TV One in the third quarter of 2015, which contributed an operating loss of approximately \$2.8 million and \$3.4 million in the second quarter and first half of 2015, respectively.

Unallocated

Unallocated operating loss was approximately \$22.1 million and \$13.5 million for the second quarter of 2016 and 2015, respectively, and approximately \$36.1 million and \$26.6 million for the first half of 2016 and 2015, respectively. The increase in operating loss was the result of approximately \$6.5 million in acquisition and disposition related fees recorded during the second quarter of 2016, increased salaries and other compensation related costs due, in part, to headcount increases, and increases in other legal and professional fees.

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Other Financial Information

The following table provides additional financial information pertaining to our operating segments and is presented to provide a more complete discussion of our segment financial performance. Other financial information consists of depreciation and amortization expense, share-based compensation expense, restructuring and transformation charges, and certain other charges.

Other financial information by segment for the second quarter of 2016 and 2015 was as follows:

		For the second quarter of 2016							
		AQH	SCS	ERG	RCH	CAS	AVC	Unallocated	Total
		<i>(Dollar amounts in millions)</i>							
Depreciation and amortization	\$	6.5	\$ 5.5	\$ 5.0	\$ 8.5	2.9	\$ 0.6	\$ 0.8	\$ 29.8
Other non-cash charges		—	—	—	—	—	—	0.8	0.8
Share-based compensation expense		0.2	0.1	0.2	0.2	0.2	—	1.2	2.1
Restructuring and transformation charges		0.2	—	—	(2.9)	—	(0.3)	—	(3.0)
Other		—	—	—	—	0.7	—	6.7	7.4

		For the second quarter of 2015							
		AQH	SCS	ERG	RCH	CAS	AVC	Unallocated	Total
		<i>(Dollar amounts in millions)</i>							
Depreciation and amortization	\$	6.1	\$ 3.9	\$ 5.6	\$ 6.8	3.8	\$ 1.3	\$ 0.7	\$ 28.2
Other non-cash charges		—	—	—	—	—	—	1.2	1.2
Share-based compensation expense		0.1	0.1	0.1	0.1	0.2	—	1.0	1.6
Restructuring and transformation charges		0.2	0.7	0.1	9.1	5.8	1.0	0.2	17.1
Other		—	0.4	—	(0.1)	(0.5)	—	0.6	0.4

Other financial information by segment for the first half of 2016 and 2015 was as follows:

		For the first half of 2016							
		AQH	SCS	ERG	RCH	CAS	AVC	Unallocated	Total
		<i>(Dollar amounts in millions)</i>							
Depreciation and amortization	\$	13.0	\$ 10.3	\$ 9.9	\$ 16.7	5.9	\$ 1.2	\$ 1.4	\$ 58.4
Other non-cash charges		—	—	—	—	—	—	0.8	0.8
Share-based compensation expense		0.4	0.3	0.3	0.4	0.3	—	2.7	4.4
Restructuring and transformation charges		0.2	—	—	(2.9)	(0.1)	0.2	—	(2.6)
Other		—	(0.2)	—	—	0.8	—	6.8	7.4

		For the first half of 2015							
		AQH	SCS	ERG	RCH	CAS	AVC	Unallocated	Total
		<i>(Dollar amounts in millions)</i>							
Depreciation and amortization	\$	12.2	\$ 7.9	\$ 11.4	\$ 14.6	7.2	\$ 2.3	\$ 1.3	\$ 56.9
Other non-cash charges		—	—	—	—	—	—	1.2	1.2
Share-based compensation expense		0.3	0.2	0.2	0.2	0.3	—	2.3	3.5
Restructuring and transformation charges		0.4	0.6	0.5	14.2	6.6	1.1	0.2	23.6
Other		—	1.4	—	(0.1)	(0.7)	—	1.0	1.6

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Foreign Net Sales and Operating Earnings

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

Foreign net sales by region and segment for the first half of 2016 and 2015 were as follows:

	Second Quarter of				First Half of			
	2016		2015		2016		2015	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Canada:								
AQH	\$ 26.6	3.9%	\$ 27.5	3.9%	\$ 50.4	3.9%	\$ 50.7	4.0%
SCS	—	—	1.3	0.2	—	—	1.8	0.1
CAS	24.5	3.6	30.7	4.4	56.8	4.4	57.3	4.5
	<u>51.1</u>	7.5	<u>59.5</u>	8.5	<u>107.2</u>	8.3	<u>109.8</u>	8.6
Europe:								
AQH	9.2	1.3	9.1	1.3	18.2	1.4	18.0	1.4
ERG	10.2	1.5	7.7	1.1	20.2	1.6	17.8	1.4
RCH	14.7	2.1	18.2	2.6	33.9	2.6	43.3	3.4
AVC	—	—	1.9	0.3	—	—	4.1	0.3
	<u>34.1</u>	5.0	<u>36.9</u>	5.2	<u>72.3</u>	5.6	<u>83.2</u>	6.5
Other Regions:								
AQH	3.4	0.5	2.1	0.3	5.2	0.4	3.0	0.2
RCH	3.2	0.5	4.2	0.6	5.2	0.4	7.1	0.6
	<u>6.6</u>	1.0	<u>6.3</u>	0.9	<u>10.4</u>	0.8	<u>10.1</u>	0.8
Total foreign net sales	<u>\$ 91.8</u>	13.4%	<u>\$ 102.7</u>	14.6%	<u>\$ 189.9</u>	14.6%	<u>\$ 203.1</u>	15.9%

Operating earnings of foreign operations, consisting primarily of the results of operations of our Canadian, European, and Asian subsidiaries, were approximately 11.2% and 12.5% of consolidated operating earnings (before allocations of corporate overhead costs and impairments) for the second quarter of 2016 and 2015, respectively, and were approximately 15.0% and 17.0% of consolidated operating earnings (before allocations of corporate overhead costs and impairments) for the first half of 2016 and 2015, respectively.

Our foreign net sales and results from operations are impacted by fluctuations in the respective local currency rates to the U.S. dollar and as a result, the amounts disclosed above include the impact of translation adjustments.

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Liquidity and Capital Resources

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

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

ABL Facility Amendment

On May 9, 2016, we entered into an amendment (the "Amendment") to the ABL Facility. Among other changes, the Amendment (i) increases the maximum amount of the ABL Facility (which, following the Amendment, is available solely to us and certain of our U.S. subsidiaries) from \$300.0 million to \$325.0 million, with a right of the Company to increase the ABL Facility by up to an additional \$125.0 million, subject to the receipt of commitments from the lenders providing such increase and the satisfaction of certain other conditions, (ii) eliminates the portion of the ABL Facility previously available to certain of our Canadian subsidiaries (subject to certain rights to re-establish such availability with certain limits) and releases all guarantees and collateral security previously provided by such Canadian subsidiaries, (iii) lowers the interest rates payable under the ABL Facility (as more fully described below), (iv) extends the maturity date of the ABL Facility from June 13, 2017 to May 9, 2021, and (v) expands certain baskets and permissions available to us under certain operational covenants with which we must comply and in the calculation of the borrowing base, as more fully set forth in the Amendment. We incurred approximately \$1.0 million in fees and expenses in connection with amending the ABL Facility during the second quarter of 2016.

The interest rates applicable to loans under the ABL Facility as amended by the Amendment are, at our option, equal to either an adjusted LIBOR rate for a one, two, three or six month interest period (or such period of 365 days or less, if consented to by the relevant lenders) or an alternate base rate, plus an applicable margin percentage ranging from 1.25% to 1.75% for borrowings based on the adjusted LIBOR rate, and 0.25% to 0.75% for borrowings based on the alternate base rate, depending on our Average Excess Availability Percentage (as defined in the amended ABL Facility); provided that, for any fiscal quarter of ours commencing with the fiscal quarter ending December 31, 2016, if our Consolidated Total Leverage Ratio (as defined in the amended ABL Facility) as of the end of the preceding fiscal quarter is less than 4.0 to 1.0, then the applicable margin percentage will be reduced by 0.25% (but in any event not below 1.25% for borrowings based on the adjusted LIBOR rate or 0.25% for borrowings based on the alternate base rate). The alternate base rate will be the greater of (1) the Federal Funds rate plus 0.50%, (2) 1.00% plus the LIBOR rate for a 30 day interest period as determined on such day, or (3) the prime rate. Interest is payable at the end of the selected interest period, but no less frequently than quarterly.

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Cash Flows and Working Capital

Our cash flows from operating, investing, and financing activities for the first half of 2016 and 2015, as reflected in the unaudited condensed consolidated statements of cash flows included elsewhere herein, are summarized in the table below:

	First Half of		
	2016	2015	Change
	<i>(Dollar amounts in millions)</i>		
Net cash provided by (used in) operating activities	\$ 54.8	\$ (80.9)	\$ 135.7
Net cash used in investing activities	(25.6)	(72.2)	46.6
Net cash (used in) provided by financing activities	(14.2)	120.9	(135.1)
Net change in unrestricted cash and cash equivalents	<u>\$ 15.0</u>	<u>\$ (32.2)</u>	<u>\$ 47.2</u>

Our working capital increased from approximately \$280.3 million at December 31, 2015 to approximately \$328.7 million at July 2, 2016 while our current ratio remained unchanged at 1.6:1 from December 31, 2015 to July 2, 2016. The changes in working capital are primarily the result of the net effect of the changes described below.

Net Cash Provided by (Used In) Operating Activities

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

The change from net cash used in operating activities to net cash provided by operating activities for the first half of 2016 was the result of a decrease in cash used for working capital needs of approximately \$80.7 million, an increase in net earnings (after the exclusion of non-cash items) of approximately \$45.4 million and a reduction in the effect of changes in other long-term assets, liabilities and other, net of approximately \$9.6 million.

Net cash provided by operating activities for the first half of 2016 was approximately \$54.8 million and consisted of non-cash items of approximately \$70.5 million and net earnings of approximately \$21.0 million, partially offset by approximately \$36.7 million of cash used in working capital and other activities. The non-cash items primarily consisted of depreciation and amortization expense, share-based compensation expense, deferred taxes and non-cash interest expense. Cash used in working capital and other activities consisted primarily of an increase of approximately \$6.7 million in inventory due to increased purchasing in anticipation of higher sales due, in part, to seasonality, and an increase in accounts receivable of approximately \$42.7 million due to higher sales in the second quarter of 2016 as compared to the fourth quarter of 2015, partially offset by an increase in accounts payable due to timing of payments of approximately \$11.2 million.

Net cash used in operating activities for the first half of 2015 was approximately \$80.9 million and consisted of a net loss of approximately \$16.2 million and approximately \$127.0 million of cash used in working capital and other activities, partially offset by non-cash items of approximately \$62.3 million. The non-cash items primarily consisted of depreciation and amortization expense, loss from debt retirement, share-based compensation expense, deferred taxes and non-cash interest expense. Cash used in working capital and other activities consisted of an increase in accounts receivable of approximately \$96.9 million, an increase in inventory of approximately \$18.7 million, and a decrease in other long-term assets of approximately \$11.0 million. This was partially offset by an increase in accounts payable of approximately \$5.1 million due to the timing of payments.

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Net Cash Used in Investing Activities

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

The decrease in net cash used in investing activities was primarily the net result of a decrease in cash paid for acquisitions, investments, dispositions, and other assets of approximately \$45.9 million. Capital expenditures were approximately \$20.9 million and \$20.0 million for the first half of 2016 and 2015, respectively.

Net cash used in investing activities was approximately \$25.6 million for the first half of 2016, and primarily related to capital expenditures of approximately \$20.9 million and cash paid for acquisitions, investments and other assets of approximately \$5.9 million.

Net cash used in investing activities was approximately \$72.2 million for the first half of 2015 and primarily consisted of payments, net of cash acquired, of approximately \$51.8 million primarily for the acquisition of Anthro and capital expenditures of approximately \$20.0 million.

Net Cash (Used in) Provided by Financing Activities

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

The change from net cash provided by financing activities to net cash used in financing activities during the first half of 2016 as compared to the first half of 2015 was primarily the result of higher debt repayments of approximately \$44.0 million and lower borrowings of approximately \$95.0 million.

Net cash used in financing activities was approximately \$14.2 million for the first half of 2016 and net cash provided by financing activities was approximately \$120.9 million for the first half 2015. For the first half of 2016, net cash used in financing activities primarily consisted of debt repayments of approximately \$202.0 million, partially offset by proceeds from debt borrowings of approximately \$189.1 million. For the first half of 2015, net cash provided by financing activities primarily consisted of proceeds from debt borrowings of approximately \$284.1 million, partially offset by debt repayments of approximately \$158.0 million.

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

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Outstanding Indebtedness

We had consolidated debt at July 2, 2016 of approximately \$1,367.1 million consisting of the following:

	<i>(Amounts in millions)</i>
8.5% Notes, net of premiums and unamortized debt issuance costs	\$ 732.2
Term Loan Facility, net of discount and unamortized debt issuance costs	595.5
ABL Facility, net of unamortized debt issuance costs	33.2
Long-term notes, mortgage notes and other indebtedness	6.0
Short-term bank obligations	0.2
	<u>\$ 1,367.1</u>

During the first half of 2016, we had a net decrease in our debt of approximately \$11.9 million. This change is primarily the result of a net decrease in ABL borrowings of approximately \$9.0 million and net payments relating to our term loan facility and subsidiary debt of approximately \$3.9 million, among other changes.

Contractual Obligations

As discussed above, in the second quarter of 2016, we amended our ABL Facility, including to extend the maturity thereof to May 2021. The summary of our estimated future cash obligations for notes, mortgage notes and obligations payable and interest payments presented below has been updated from the amounts presented in our 2015 Form 10-K to reflect the following:

- Amounts have been adjusted to reflect the estimated remaining amounts due under our ABL Facility as a result of additional net borrowings and interest payments made during the first half of 2016.
- The 2016 amounts have been adjusted to reflect debt and interest payments made during the first half of 2016 related to our other debt obligations.
- Debt and interest payments have been adjusted to reflect the extension of the maturity of the ABL Facility to May 2021.

	Payments Due by Period				
	Remainder of 2016	2017 & 2018	2019 & 2020	2021 & Thereafter	Total
	<i>(Dollar amounts in millions)</i>				
Notes, mortgage notes and obligations payable	\$ 3.1	\$ 12.6	\$ 592.5	\$ 771.1	\$ 1,379.3
Interest payments	48.0	184.7	177.1	46.5	456.3

In addition to the above changes in debt and interest obligations, during 2016 we entered into a new lease obligation within the CAS segment totaling approximately \$21.5 million in additional lease payments. This lease agreement is for a term of twelve years and includes increasing payments whereby the annual lease payments for the initial 50% of the lease term are approximately \$1.7 million per year and then increasing to approximately \$1.9 million for the remaining lease term. The lease agreement contains an extension option for a period of six years which is not a bargain renewal option. There have been no other material changes outside the ordinary course of business to the obligations presented in the contractual obligations table in our 2015 Form 10-K.

Nortek, its subsidiaries, affiliates, or significant shareholders (subject to the Investor Agreement between the Company and Ares Management LLC, dated as of April 4, 2012, as described in the Form 8-K filed by the Company with the SEC on April 5,

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2012) may from time to time, in their sole discretion, purchase, repay, refinance, redeem or retire any of our outstanding debt, in privately negotiated or open market transactions, by tender offer or otherwise, which may be subject to restricted payment limitations.

Off-Balance Sheet Arrangements

At July 2, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, that have or are reasonably likely to have a current or future material effect on our financial condition, changes in our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. We have issued letters of credit in the ordinary course of our business. See “ - *Adequacy of Liquidity Sources*” below and Note E, *Notes, Mortgage Notes and Obligations Payable*,” to the unaudited condensed consolidated financial statements included elsewhere in this report.

Adequacy of Liquidity Sources

At July 2, 2016, we had approximately \$39.6 million of unrestricted cash and cash equivalents, of which approximately \$35.6 million was held by foreign subsidiaries, to fund our cash needs for the remainder of 2016. The cash held by foreign subsidiaries will be used primarily to fund the operations of our foreign subsidiaries, and with the exception of amounts in one jurisdiction, are not expected to be repatriated. We have provided deferred taxes related to those amounts that are not indefinitely invested. There are no significant restrictions on the cash held by foreign subsidiaries.

At August 3, 2016, we had approximately \$29.0 million in outstanding borrowings and approximately \$12.9 million in outstanding letters of credit under the ABL Facility. Based on the June 2016 borrowing base calculations, at August 3, 2016, we had specified availability of approximately \$291.2 million and approximately \$258.7 million of specified availability before triggering the cash deposit requirements under the ABL Facility, as in effect on such date.

As noted previously, the indentures and other agreements governing our indebtedness and the indebtedness of our subsidiaries contain certain restrictive financial and operating covenants, including covenants that restrict our ability and the ability of our subsidiaries to complete acquisitions, pay dividends, incur indebtedness, make investments, sell assets, and take certain other corporate actions (all as defined in the indentures and other agreements). As of July 2, 2016, we had the capacity to make certain payments, including dividends, of approximately \$155.7 million.

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

Debt Covenant Compliance

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

- consolidate, merge or sell assets;
- pay dividends or make certain payments or distributions;
- incur additional indebtedness;
- make loans, investments, or acquisitions;
- incur certain liens; and

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- enter into transactions with affiliates.

Additionally, pursuant to the terms of our ABL Facility (as amended by the Amendment discussed above) we will be required to deposit cash from our material deposit accounts (including all concentration accounts) daily in collection accounts maintained with the administrative agent under the ABL Facility, which will be used to repay outstanding loans and cash collateralized letters of credit if (i) specified availability (as defined in the amended ABL Facility) falls below the greater of \$30.0 million or 10.0% of the line cap (which is equal to the lesser of \$325.0 million and the total borrowing base under the amended ABL Facility) or (ii) an event of default has occurred and is continuing. In addition, under the amended ABL Facility, if (i) specified availability falls below the greater of \$30.0 million or 10.0% of the line cap under the amended ABL Facility or (ii) an event of default has occurred and is continuing, we will be required to satisfy and maintain a consolidated fixed charge coverage ratio (as defined in the amended ABL Facility) measured on a trailing four quarter basis of not less than 1.0 to 1.0. The ABL Facility and the Term Loan Facility also restrict our ability to prepay our other indebtedness, including the 8.5% Notes and, with respect to the ABL Facility, the Term Loan Facility, or designate any other indebtedness as senior debt.

In addition, the indenture that governs our 8.5% Notes and the credit agreement that governs the Term Loan Facility contain certain covenants that limit our ability to designate any of our subsidiaries as unrestricted subsidiaries or permit any restricted subsidiaries that are not guarantors under the indenture from guaranteeing our debt or the debt of any of our other restricted subsidiaries. The indenture governing our 8.5% Notes, the credit agreement that governs the Term Loan Facility and, following the effectiveness of the Amendment of the ABL Facility, the credit agreement that governs the ABL Facility also restrict our ability to incur certain additional indebtedness (but the Term Loan Facility does not restrict our ability to incur indebtedness under the ABL Facility, and the ABL Facility and the Term Loan Facility do not restrict our ability to incur certain other forms of permitted debt) if the fixed charge coverage ratio ("FCCR") measured on a trailing four quarter basis falls below 2.0 to 1.0. The FCCR is the ratio of the Adjusted Consolidated Cash Flow, ("ACCF", as described in greater detail below) to Fixed Charges (as defined in the indenture governing the 8.5% Notes and, with respect to the Term Loan Facility and the ABL Facility, in the credit agreement governing the Term Loan Facility) for such trailing four quarter period. As of July 2, 2016, under the 8.5% Notes (before the inclusion of run rate cost savings and synergies) the FCCR was approximately 3.1 to 1.0.

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

As of July 2, 2016, we were in compliance with all covenants under the indenture that governs the 8.5% Notes and the credit agreements that govern the ABL Facility and Term Loan Facility. We believe that, excluding the effect of a potential change of control as a result of the proposed merger with Melrose (which would constitute an event of default under the credit agreements that govern the ABL Facility and Term Loan Facility), it is reasonably assured that we will comply with the covenants for the foreseeable future.

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Consolidated Cash Flow and Adjusted Consolidated Cash Flow

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

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

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

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

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The following table reconciles net (loss) earnings to CCF and ACCF for the 8.5% Notes for the trailing four quarters ended July 2, 2016:

	(1) Year Ended December 31, 2015	(2) First Half of 2016	(3) 2015	LTM Ended (1)+(2)-(3) July 2, 2016
<i>(Dollar amounts in millions)</i>				
Net (loss) earnings	\$ (26.7)	\$ 21.0	\$ (16.2)	\$ 10.5
(Benefit) provision from income taxes	(3.4)	13.6	(8.3)	18.5
Loss from debt retirement	14.8	—	14.8	—
Interest expense	100.7	47.1	52.1	95.7
Depreciation and amortization expense	118.2	58.4	56.9	119.7
Consolidated Cash Flow	\$ 203.6	\$ 140.1	\$ 99.3	\$ 244.4
Other non-cash charges	1.6	0.8	1.2	1.2
Non-recurring losses (gains) (a)	4.4	(0.2)	2.0	2.2
Acquisition and disposition fees and expenses	1.7	6.5	0.4	7.8
Gain on sale of assets	(0.9)	—	—	(0.9)
Joint venture (income) loss	(0.3)	0.8	(0.7)	1.2
Share-based compensation expense	5.4	4.4	3.5	6.3
Net foreign exchange (gains) losses (b)	(0.3)	0.3	(0.1)	0.1
Restructuring and transformation charges (c)	51.3	(2.6)	23.6	25.1
Pro-forma effect of acquisitions and dispositions (d)	2.3	—	1.9	0.4
Adjusted Consolidated Cash Flow (e)	<u>\$ 268.8</u>	<u>\$ 150.1</u>	<u>\$ 131.1</u>	<u>\$ 287.8</u>

- (a) Amounts relate to non-recurring gains or losses, as defined in the indenture governing the 8.5% Notes. For the trailing four quarters ended 2016, this amount includes (1) a favorable fair value adjustment of approximately \$(3.7) million relating to the Numera contingent consideration within the SCS segment, (2) the loss on sale of assets of TV One of approximately \$2.9 million in the AVC segments, (3) approximately \$0.9 million in legal and other professional services incurred related to the FCPA investigation primarily in the SCS segment, and (4) approximately \$2.1 million of charges associated with executive transition employment and separation agreement costs and other fees within Unallocated.
- (b) Non-cash foreign exchange (gains) losses relate to intercompany debt not indefinitely invested in our subsidiaries, recorded within Unallocated.
- (c) Includes all restructuring charges, including severance, relocation and transformation/transition costs. Costs associated with these activities for the trailing four quarters ended July 2, 2016 were as follows:

	(1) Year Ended December 31, 2015	(2) First Half of 2016	(3) 2015	LTM Ended (1)+(2)-(3) July 2, 2016
<i>(Dollar amounts in millions)</i>				
Subsidiary Combinations	\$ 7.8	\$ 0.2	\$ 0.2	\$ 7.8
Manufacturing Rationalization & Relocation Initiatives	6.5	—	5.4	1.1
Warehousing & Distribution Consolidation	13.9	(2.9)	7.0	4.0
CAS Consolidation	12.0	(0.1)	5.0	6.9
Other operational improvement initiatives	3.9	—	2.1	1.8
All other exit and disposal activities	7.2	0.2	3.9	3.5
	<u>\$ 51.3</u>	<u>\$ (2.6)</u>	<u>\$ 23.6</u>	<u>\$ 25.1</u>

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

As noted previously, under the amended ABL Facility, if (i) specified availability (as defined in the amended ABL Facility) falls below the greater of \$30.0 million or 10.0% of the line cap (which is equal to the lesser of \$325.0 million and the total borrowing base under the amended ABL Facility), or (ii) an event of default has occurred and is continuing, we will be required to satisfy and maintain a consolidated fixed charge coverage ratio (as defined in the amended ABL Facility) measured on a trailing four quarter basis of not less than 1.0 to 1.0. At July 2, 2016, specified availability for purposes of the foregoing covenant trigger test under the ABL Facility exceeded \$30.0 million and 10.0% of the line cap under the amended ABL Facility. Our fixed charge coverage ratio under the ABL Facility at July 2, 2016 was approximately 2.2 to 1.0. Similar to the 8.5% Notes, the fixed charge coverage ratio under the ABL Facility is the ratio of ACCF to fixed charges; however, in addition to other differences, ACCF under the ABL Facility is further reduced by the aggregate amount of all capital expenditures for the trailing four quarters and income taxes paid or payable in cash for the trailing four quarters, and fixed charges under the ABL Facility are further increased by mandatory principal payments during the period. As a result, ACCF under the ABL Facility at July 2, 2016 was approximately \$218.2 million.

Market Risk

Interest Rate Risk

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

Our investing strategy to manage interest rate exposure is to invest in short-term, highly liquid investments and marketable securities. Short-term investments primarily consist of federal agency discount notes, treasury bills and bank issued money market instruments with original maturities of 90 days or less. At July 2, 2016 and December 31, 2015, the fair value of our unrestricted and restricted investments was not materially different from their cost basis.

We manage our borrowing exposure to changes in interest rates by optimizing the use of fixed rate debt with extended maturities. At July 2, 2016 and December 31, 2015, approximately 54% and 53%, respectively, of the carrying value of our long-term debt was at fixed interest rates. The remaining portion of our long-term debt is at variable interest rates. Based upon interest rates in effect at July 2, 2016, an overall unfavorable change in interest rates of 100 basis points would result in an additional charge to interest expense of approximately \$3.2 million for the remainder of 2016.

Foreign Currency Risk

We manufacture, market and sell our products globally and a portion of our sales are generated outside the United States in local currencies. We also incur certain manufacturing, marketing and selling costs in international markets in local currency. Accordingly, our earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative

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to the U.S. Dollar, our reporting currency. The impact of changes in foreign currency exchange rates related to transactions resulted in a decrease in net foreign exchange losses of approximately \$0.2 million for the second quarter of 2016 as compared to the same period of 2015 and an increase in net foreign exchange losses recorded in SG&A of approximately \$0.7 million for the first half of 2016 as compared to the same period of 2015. The impact of changes in foreign currency exchange rates related to currency translation resulted in a decrease in stockholders' investment of approximately \$3.1 million and \$0.9 million for the second quarter and first half of 2016, respectively. The impact of changes in foreign currency exchange rates related to currency translation resulted in an increase in stockholders' investment of approximately \$2.3 million in the second quarter of 2015 and decrease in stockholders' investment of approximately \$3.8 million for the first half of 2015.

During the third quarter of 2015, we began to enhance our program to mitigate exposure to changes in foreign currency exchange rates by entering into foreign currency forward contracts to minimize, for a period of time, the impact on its financial results from changes in foreign exchange rates, primarily the British Pound Sterling, Canadian Dollar and the Chinese Yuan Renminbi. Additionally, we entered into certain foreign currency forward contracts to hedge the anticipated cash flows from transactions denominated in foreign currencies, primarily the Mexican Peso. This does not eliminate the impact of the volatility of foreign exchange rates. These foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, which are generally one month. We had non-designated foreign currency hedge contracts outstanding with a notional amount of approximately \$24.9 million at July 2, 2016. During the second quarter of 2016, we recorded approximately \$0.2 million of unrealized losses related to contracts outstanding at July 2, 2016. During the first half of 2016, the unrealized losses related to contracts outstanding at July 2, 2016 was nominal. During the second quarter and first half of 2016, we settled non-designated foreign currency hedge contracts with a notional amount totaling approximately \$50.3 million and \$94.5 million, respectively, resulting in a realized gain upon settlement of approximately \$0.5 million during the first half of 2016 and a nominal amount during the second quarter of 2016. The gains and losses related to non-designated foreign currency hedge contracts are not material, and are included as a component of SG&A within our unaudited condensed consolidated statement of operations. The gains and losses related to the non-designated foreign currency hedge contracts are included within operating activities in the unaudited condensed consolidated statement of cash flows.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Certain of our accounting policies require the application of judgment in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. We periodically evaluate the judgments and estimates used for our critical accounting policies to ensure that such judgments and estimates are reasonable for our interim and annual reporting requirements. These judgments and estimates are based on our historical experience, current trends, and information available from other sources, as appropriate. If different conditions result than those assumptions used in our judgments, the results could be materially different from our estimates.

Our critical accounting policies include:

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

- Contingencies, and
- Share-Based Compensation Expense.

Further detail regarding our critical accounting policies can be found in the consolidated financial statements and the notes included in our 2015 Form 10-K as filed with the SEC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Other than as set forth in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk*”, there have been no material changes to our exposures to market risk since December 31, 2015.

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 Chief Executive Officer, who is both the Company’s principal executive and principal financial officer for SEC reporting purposes, and the Company’s Corporate Disclosure and Controls Committee, of the effectiveness of the Company’s disclosure controls and procedures as defined in Rules 13a–15e and 15d-15e under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, the Company’s Chief Executive Officer has concluded that as of the end of such period, the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and is accumulated and communicated to management, including the Company’s Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company’s fiscal quarter ended July 2, 2016, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management will continue to evaluate its internal control over financial reporting in connection with the matters discussed under “*Other Commitments and Contingencies*” in Note G, “*Commitments and Contingencies*” to the unaudited condensed consolidated financial statements included elsewhere in this report, relating to certain matters identified at our Linear Electronics (Shenzhen) Co. Ltd.

