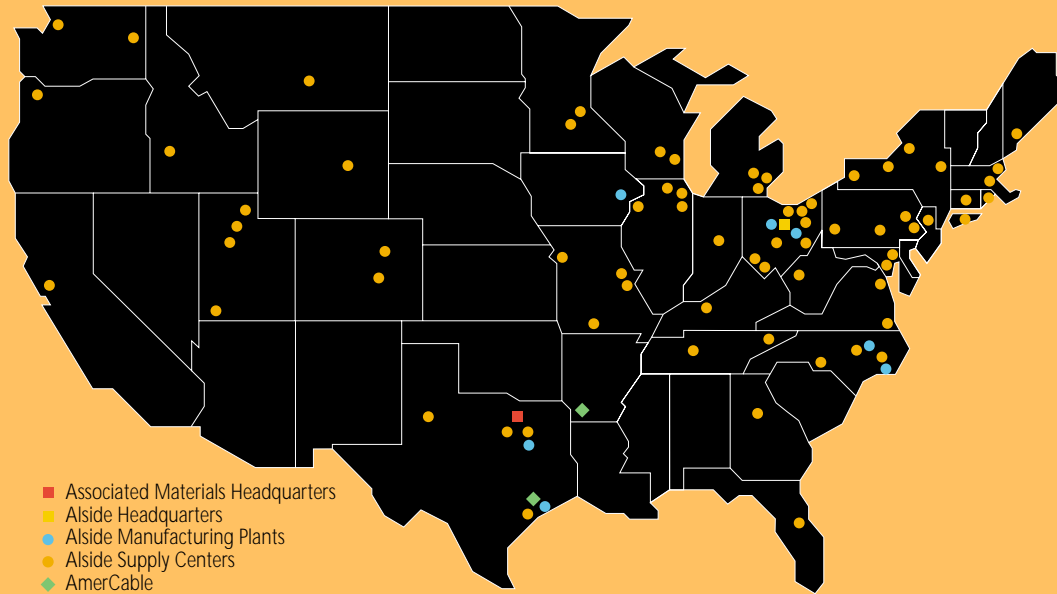




ASSOCIATED MATERIALS INCORPORATED
ANNUAL REPORT 1999

COMPANY LOCATIONS



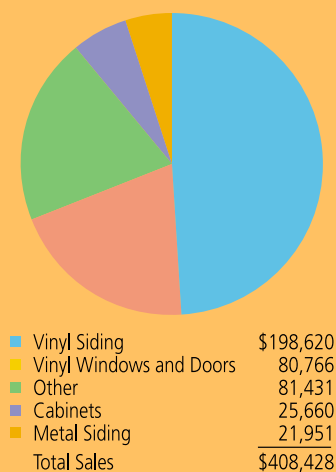
The Company's Alside division opened a new vinyl siding manufacturing facility in Freeport, Texas, during 1999.

ASSOCIATED MATERIALS ACHIEVED RECORD SALES AND PROFITS DURING 1999

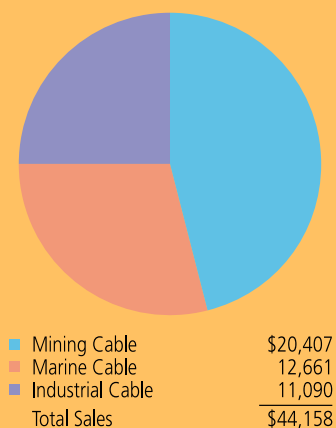
The Company consists of its Alside division (90% of net sales), a leading, vertically integrated manufacturer and nationwide distributor of exterior residential building products and its AmerCable division (10% of net sales), a specialty electrical cable manufacturer.

Business Segment	Products	1999 Highlights	Goals for 2000
Alside	Vinyl siding Vinyl windows Vinyl fencing Vinyl garage doors Semi-custom cabinetry	Vinyl siding unit sales grew at three times the market growth rate	Capitalize on vinyl siding product innovation to gain additional market share
		Increased vinyl window unit sales by 11%	Further improve window operations
		Opened new state-of-the-art vinyl manufacturing plant near Houston, Texas	Increase penetration in the new construction market for vinyl siding and windows
AmerCable	Mining cable Marine cable Industrial cable	Secured large contract with major industry player	Achieve sales excellence comparable to its operational excellence
		Implemented an aggressive capital program to expand capacity and flexibility	Aggressively target growth areas
		Strengthened organization	Expand markets
		Developed new products	Create value for existing customers and continue to secure large projects

Alside Sales by Product
(\$ in 000s)



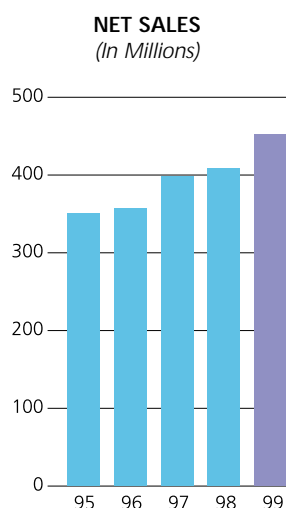
AmerCable Sales by Product
(\$ in 000s)



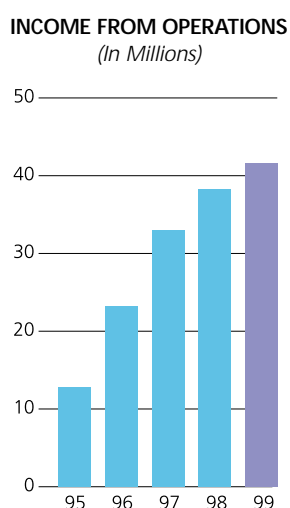
FINANCIAL HIGHLIGHTS

(In Thousands, Except Per Share Data)

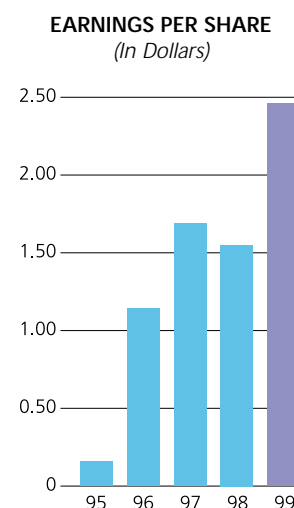
	1999	1998	1997
Income Statement Data			
Net sales			
Alside	\$ 408,428	\$ 355,997	\$ 344,000
AmerCable	44,158	51,936	53,690
Total net sales	452,586	407,933	397,690
Income from operations	41,644	38,235	33,034
Income before extraordinary item	20,490	13,056	13,089
Net income	\$ 20,490	\$ 8,949	\$ 13,089
Share Data			
Basic earnings per share before extraordinary item	\$ 2.52	\$ 1.58	\$ 1.72
Diluted earnings per share before extraordinary item	\$ 2.46	\$ 1.55	\$ 1.69
Weighted average number of diluted shares	8,344	8,403	7,756
Balance Sheet Data			
Cash	\$ 3,432	\$ 14,964	\$ 1,935
Working capital	85,878	79,225	61,191
Total assets	206,296	189,319	178,504
Capital expenditures	18,915	14,261	8,758
Long-term debt, less current maturities	75,000	75,000	78,600
Stockholders' equity	79,326	64,378	44,734
Other Data			
Ratio of debt to EBITDA	1.50x	1.73x	2.05x
Ratio of EBITDA to interest expense	7.40x	6.01x	4.04x
Ratio of debt to equity	.95x	1.22x	1.81x



Net sales increased 11% in 1999 as compared to 1998 due to record sales at the Company's Alside division.



Income from operations has increased at a compound annual rate of 34.6% over the past five years.



Diluted earnings per share has increased at a compound annual rate of 98.0% over the past five years.

LETTER TO STOCKHOLDERS

We are pleased with our performance in 1999.

Our goals have been unchanged for the past several years. We intend to increase our sales by increasing our market share. More efficient operations, combined with this sales increase, should create very significant growth in earnings per share.

In 1999 we increased vinyl unit sales by over 16%, which was in excess of three times the industry's growth rate. We increased window unit sales by 11%. Alside's sales dollars increased by 15% and Associated Materials' by 11%. Our earnings per share increased from \$1.75 before one-time adjustments in 1998 to \$2.46 in 1999, or by 40%.

The major contributor to increased profit was constantly more effective performance by our Alside Supply Centers. We have devoted a great deal of effort to reorganization both of methods and of people and to improved training programs. The success of these initiatives has substantially increased both sales and profits. Increased vinyl siding unit sales were due, in large part, to our innovative product introductions such as Charter Oak and CenterLock.



Our new vinyl siding plant in Freeport, Texas had a very successful start-up late in 1999 and will help us increase operating efficiencies in 2000. Because of the success of this plant we are already expanding its capacity.

We are not yet satisfied with our window manufacturing operations. Improved efficiencies did not contribute to profit in 1999, nor did improved quality and service contribute to our sales effort. We did, however, do a great deal of work which we feel will bear fruit in the future. Alside's new President and Chief Operating Officer, Mike Caporale, came to us from one of our most esteemed window competitors. Evaluating and improving our window performance was obviously his first order of business. He pronounces himself very pleased with what has been accomplished and with our future prospects.

AmerCable was hurt by a very depressed year in its market, particularly as a result of low energy prices. We took the opportunity to revamp its sales force and marketing efforts. Sales began to pick up in the fourth quarter, and we anticipate continued sales improvement during 2000.

We disposed of all but a small residual interest in Amercord late in 1999. Thus Amercord's losses (which cost us 10 cents per share in 1999) will no longer be a drag on the Company's earnings.

We are confident that with our people and our products there is ample opportunity for continued growth by Associated Materials.

A handwritten signature in black ink, which appears to read "W. Winspear". The signature is fluid and cursive, written on a white background.

William W. Winspear
Chairman of the Board
President and Chief Executive Officer

1999 OPERATIONS SUMMARY



Sales increased 11.0% to a record \$452.6 million, driving earnings per share to increase 59% to \$2.46. The Company's Alside division increased sales by 14.7% as the combination of manufacturing innovative vinyl building products and utilizing company-owned distribution continued to be an effective business model to deliver improved profitability. The Company's AmerCable division faced a very challenging environment in 1999 as low commodity prices depressed end markets for its electrical cable products. Despite AmerCable's lower sales and profits in 1999, AmerCable finished the year on an upswing and with even greater opportunities to excel in 2000. During the fourth quarter, the Company completed the recapitalization of Amercord reducing its equity interest from 50% to less than 10%.

1999's financial results reflect the strategic investments Associated Materials has made over the past several years. Investments made not only in plant and equipment, but also in people and programs, helped Associated Materials generate a 28.8% return on invested capital for 1999.

Alside's record performance in 1999 was highlighted by strong growth from its vinyl products, particularly siding. Alside's sales increased 14.7% to \$408.4 million, producing operating income of \$42.4 million.

Alside gained vinyl siding market share – Alside's vinyl siding sales grew at three times the estimated industry growth rate as Alside continued to grow its market share. A continuous stream of innovative vinyl siding products has fueled Alside's growth over the past several years. By listening to its customers, Alside has been able to create products that are not only innovative, but also provide value to homeowners and its contractor-customers as illustrated by its successful Charter Oak and CenterLock vinyl siding products.

- **CHARTER OAK** – Charter Oak, Alside's highly successful premium siding product, was the industry's first one-piece reinforced, premium vinyl siding and is credited by the industry as renewing the emphasis on quality in vinyl siding products.
- **CENTERLOCK** – Alside's innovation led to the creation of another outstanding vinyl siding product, CenterLock, which has been Alside's fastest product launch ever. Its

patented center locking design provides strength and rigidity to the panel, providing superior aesthetics for the homeowner while improving the contractors' productivity with its easy installation.

Alside's window business showed double digit growth.

Alside devoted significant efforts in 1999 to restructuring its window operations. The restructuring includes management changes, new information systems, revised manufacturing processes, transportation logistics and streamlining a whole host of tasks from the time Alside receives a window order to the time the window is delivered to the customer.

To continue its growth trend, the Company has devoted significant resources to its manufacturing plants and its people.

During 1999, the Company made capital expenditures totaling \$18.9 million, of which \$16.0 million were used by Alside to increase capacity, expand product offerings and improve operating performance and flexibility. The Company continues to invest in its future by attracting and training the best people possible.



The Company spent \$9.8 million in 1999 and \$4.2 million in 1998 on the construction of its vinyl siding plant in Freeport, Texas.



Expanded manufacturing capacity – The most significant capital investment made in 1999 was the completion of the Freeport, Texas vinyl siding plant started in 1998. The \$14.0 million Freeport facility increased capacity by 25% over 1998 levels. The capacity of the Freeport plant can be doubled with a \$3.0 to \$4.0 million investment in additional extrusion equipment enabling Alside to meet its projected vinyl siding sales growth. A portion of the expansion at Freeport is already underway.

Developed its people – Alside continued to expand its training programs with a particular emphasis on its Supply Center sales and operations personnel. Alside's growth strategy calls for an increase in the number of Supply Centers by approximately 10% per year. In order to provide the management talent necessary to staff these new Supply Centers, Alside has established a formal recruiting and training program, which it calls its Management Training Program, to ensure it has a qualified pool of management personnel to staff new and existing Supply Centers. Management trainees receive extensive training on Alside's products, customer service, operations and the credit and sales functions of the business. With its Management Training Program, Alside can consistently staff its Supply Centers with high quality, well-



trained personnel, while providing an enhanced career path for these employees. Alsie believes that this program provides it with a significant competitive advantage over smaller independent building product distributors.

Despite a challenging market environment, AmerCable had several significant accomplishments during 1999.

AmerCable experienced lower sales to its mining and marine customers during 1999 due to decreased demand resulting from lower commodity prices. Mining and marine customers limit their discretionary spending for capital improvements and repairs when prices of their commodity products decline, resulting in decreased demand for AmerCable's cable products. Commodity prices, with the exception of coal, have continued to improve after reaching lows during 1999. With its 1999 accomplishments, AmerCable is poised to take advantage of improvements in its markets.

Secured large blanket contract – AmerCable capitalized on its industry reputation as the market leader in operational excellence, on-time delivery and fast lead times by securing a two-year blanket contract for \$5.0 million annually with a major mining customer during the third quarter of 1999.

Completed a \$2.9 million capital program – AmerCable implemented an aggressive \$2.9 million capital program to expand its capacity and provide greater manufacturing flexibility, ensuring that it will remain the industry leader in product quality and service.

Strengthened sales organization – AmerCable made significant investments to expand and improve its sales force to provide the needed infrastructure, expertise and manpower necessary to enhance technical support to its distributor customers as they service end-user accounts. These investments are especially critical as AmerCable takes steps to further partner with its key distributors in response to a growing demand by end-users for fully integrated supply arrangements.

Developed new products and modified existing products – In order to support long-term growth, AmerCable significantly increased its product and commercial development activities in 1999. AmerCable targeted cable markets that require products for specialized applications that best utilize and value the technical and operational services it provides.



INITIATIVES AND GOALS FOR 2000



ALSIDE

Continuing vinyl siding growth

Alside's focus for 2000 is to continue to grow its vinyl siding market share by providing innovative products and superior service. With the additional vinyl siding production capacity provided by the new Freeport plant, Alside now has the capability to expand its presence in the new construction market and capitalize on its strong industry reputation.

Completing the restructuring of the window operations

Alside's window operations have tremendous potential for sales and profit growth. As it continues the restructuring process from 1999, Alside will position its window business to capitalize on growth opportunities. The combination of its excellent product line and distribution capabilities with improved operations and service will be even more powerful in the marketplace.

Penetrating the new construction window market

Sales of vinyl windows used for new construction are the fastest growing segment in vinyl windows, increasing at a compound annual growth rate of 22% over the past five

years as contractors recognize the favorable attributes of vinyl windows. Until recently, Alside has focused primarily on custom-made vinyl windows, which are the preferred product for the remodeling market. New construction windows compose only a small percentage of Alside's existing vinyl window business, yet account for 47% of industry-wide vinyl window sales. Alside has developed special products and marketing programs to increase its sales of new construction windows and intends to capitalize on the opportunity to bundle its window products with its vinyl siding and other products to its contractor-customers in the new construction market.

Expanding and strengthening the Alside Supply Center network

Alside intends to aggressively expand its company-owned distribution network of Supply Centers by increasing the number of new locations by 10% per year while strengthening existing locations with intensified management training programs as part of its on-going Management Training Program.

AmerCable

Targeting growth markets

AmerCable has identified significant growth opportunities for its industrial cable products, primarily in the automotive and telecommunications sectors. AmerCable has the premier power cable for automotive robotics and is poised to capitalize on this strength with the hiring of highly experienced sales personnel specifically for this market. The telecommunications sector is an immense, rapidly growing market. Demand for AmerCable's existing products has been strong in this sector with even greater demand anticipated for products currently in development.

Expanding geographically

Entering new markets will also be a key focus for AmerCable as the international market represents a strategic long-term growth area for all product lines. AmerCable has added a manager of international sales in order to implement its sales plan to expand its sales worldwide with a focus on Central and South America as well as the Asia Pacific Region.



Focusing on sales excellence

AmerCable will focus on achieving sales excellence on a level comparable to its operational excellence. In order to distinguish itself from its competitors, AmerCable has invested heavily in training its sales and marketing force to provide value-added service and technical knowledge to its customers and to develop specialized solutions for, and engage in relationship selling with, its distributor customers and end-users.

Improving commodity prices

Commodity prices, with the exception of coal, continue to rebound from 1999 lows. The market environment for marine products and non-coal related mining products should continue to improve as commodity prices improve.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1999.

or

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee Required) for the transition period from _____ to _____.

Commission File Number **0-24956**

Associated Materials Incorporated

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

75-1872487

(IRS Employer
Identification Number)

**2200 Ross Avenue, Suite 4100 East
Dallas, Texas 75201**

(Address of executive offices)

(214) 220-4600

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

Common Stock, par value, \$.0025 per share

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

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

The aggregate market value of the Common Stock and Class B Common Stock held by non-affiliates of the Registrant as of March 9, 2000 was approximately \$45,935,517.

As of March 9, 2000 the Registrant had 6,469,270 shares of Common Stock and 1,550,000 shares of Class B Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 25, 2000, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, are incorporated herein by reference in Part III.

PART I

ITEM 1. BUSINESS

Associated Materials Incorporated (the "Company") is a leading, vertically integrated manufacturer and nationwide distributor of exterior residential building products through its Alside division ("Alside"). Alside's core products are vinyl siding and vinyl windows. These products are marketed on a wholesale basis to more than 35,000 professional contractors engaged in home remodeling and new home construction principally through Alside's nationwide network of 70 Alside Supply Centers. Alside's vinyl product offerings also include vinyl fencing, vinyl decking and vinyl garage doors. In 1999, Alside accounted for approximately 90% of the Company's net sales. In addition to Alside, the Company's operations include its AmerCable division ("AmerCable"), a specialty electrical cable manufacturer. The Company was incorporated in Delaware in 1983.

Industry Overview

Vinyl siding competes with other materials, such as wood, masonry and metals, for a share of the residential siding market. Vinyl siding has greater durability and requires less maintenance than wood siding, and generally is less expensive than wood, masonry or metal siding. According to an industry study jointly prepared by Sabre Associates, Inc. and Pure Strategy (the "Sabre Study"), based on unit sales, vinyl siding accounted for approximately 50% of the exterior siding market in 1998 versus approximately 17% in 1985. Since the early 1980's, vinyl siding has become the preferred siding product for professional home remodeling contractors and their customers, and commanded approximately 62% of the home remodeling marketplace for siding according to the most recent Sabre Study. More recently, vinyl siding has achieved increased acceptance in the new construction market, as builders and home buyers have recognized vinyl's low maintenance, durability and price advantages. The Company believes that vinyl siding will continue to gain market share in the new residential construction market while remaining the preferred product of the remodeling marketplace.

Vinyl windows require less maintenance, are more durable than either wood or aluminum windows and provide greater energy efficiency than aluminum windows. According to the Sabre Study, based on unit sales, approximately 51% of all residential windows sold in 1998 were vinyl windows versus approximately 27% in 1991. Since the early 1990's, vinyl windows have become the preferred window product for professional home remodeling contractors and their customers, and commanded approximately 75% of the home remodeling marketplace for windows. More recently, vinyl windows have achieved increased acceptance in the new construction market as a result of builders and home buyers recognizing vinyl's favorable attributes, the enactment of local legal or building code requirements that mandate more energy efficient windows and the increased development and promotion of vinyl window products by national window manufacturers. The Company believes that vinyl windows will continue to gain market share in the new residential construction market while remaining the preferred product of the remodeling marketplace.

Alside

Products. Alside's principal product offerings are vinyl siding and vinyl windows, which together accounted for approximately 68.4% of Alside's 1999 net sales. Alside also manufactures a variety of other products including vinyl fencing, vinyl decking, vinyl garage doors and semi-custom cabinets.

The vinyl siding market consists of three segments: economy/new construction, standard and premium. Vinyl siding quality is determined by its rigidity, resistance to fading, thickness and ease of installation as well as other factors. Prior to 1996, Alside targeted its products primarily to the standard segment. More recently, the Company has broadened its product lines to increase its penetration of the premium and economy segments. The Company believes that its innovation in product development was key to its siding sales growth in the past and will continue to be a principal factor in its sales growth in future years. For example, in late 1995, Alside introduced its patented Charter Oak siding, which enabled Alside to penetrate the premium segment of the vinyl siding market. The Company believes that Charter Oak sets the standard for premium vinyl siding products today. Alside introduced its Conquest siding product in 1997, which has enabled Alside to achieve additional market penetration in the economy/new construction segment of the siding industry. During 1998, Alside introduced CenterLock, a patented product positioned in the standard market segment. In 1999, Alside introduced Odyssey Plus, an improved and updated version of its popular Odyssey siding product. In addition to these new products, Alside has increased the number of colors and profiles offered within its existing siding products and continues to increase and improve upon the breadth of its vinyl siding product lines. Alside offers limited warranties ranging from 50-year warranties to lifetime warranties with its siding products.

Alside divides its window products into the economy, standard and premium categories. Product quality within the vinyl window industry is determined by a number of competitive features including method of construction and materials used. Rather than manufacturing standard size windows, Alside custom manufactures virtually all of its windows to fit existing window openings. Custom fabrication provides Alside's customers with a product that is less expensive to install and more attractive after installation. All of Alside's window products are accompanied by a limited lifetime warranty.

A summary of Alside's siding and window product offerings is presented in the table below according to the Company's product line classification:

Product Line	Siding Products	Window Products
Premium	Charter Oak Greenbriar Williamsport	UltraMaxx Omni
Standard	Odyssey Odyssey Plus CenterLock	Geneva Excalibur
Economy	Conquest Alpha	Performance Series – New Construction Centurion

In 1993, Alside introduced vinyl fencing as a product line under the brand name UltraGuard, currently a leading brand of both agricultural and residential vinyl fencing. Sales of UltraGuard fencing accounted for less than 5% of Alside's net sales in 1999. Alside introduced a raised panel vinyl garage door in 1997 under the brand name Premium Garage Doors. Alside also manufactures semi-custom cabinets for the kitchen and bath under the brand name UltraCraft. Cabinet sales accounted for approximately 6% of Alside's net sales in 1999. Alside primarily markets its fencing, garage doors and cabinets through independent dealers and not through its Supply Centers.

To complete its line of siding products, Alside also distributes metal siding and related building products manufactured by other companies. The sale of metal siding and related building products has declined from 19% of Alside's sales in 1993 to 5% in 1999 as these products have been displaced by vinyl products. Alside also selectively distributes a variety of complementary building products manufactured by others, including wood windows, roofing materials, insulation, cabinets and installation equipment and tools.

Marketing and Distribution. Traditionally, most vinyl siding has been sold to the home remodeling marketplace through independent distributors. The Company believes that Alside is one of only two major vinyl siding manufacturers that market their products primarily through company-owned distribution centers. Alside has a nationwide distribution network of 70 Alside Supply Centers which market Alside manufactured products and other complementary building products to more than 35,000 professional home improvement and new construction contractors. The Company believes that Alside Supply Centers provide "one-stop shopping" to meet the specialized needs of its contractor-customers by distributing more than 2,000 building and remodeling products, including a broad range of Company-manufactured vinyl siding and vinyl windows as well as products manufactured by others, including metal siding, wood windows, roofing materials, insulation, cabinets and installation equipment. In 1999, approximately 79% of Alside's sales were made through its Supply Centers. In addition to sales and promotional support, contractors look to their local Alside Supply Center to provide a broad range of specialty product offerings in order to maximize their ability to attract remodeling and homebuilding customers.

Alside believes that distributing products through its Supply Centers provides the Company with certain competitive advantages such as (a) long-standing customer relationships, (b) the ability to implement targeted marketing programs and (c) a permanent presence in local markets. Many of Alside's contractor-customers have established long-standing relationships with their local Supply Center based upon individualized service and credit terms, quality products, timely delivery, breadth of product offerings, strong sales and promotional programs and competitive prices. Alside supports its contractor-customer base with marketing and promotional programs that include product sample cases, sales literature, product videos and other sales and promotional materials. Professional contractors use these materials to sell remodeling construction services to prospective customers. The customer generally relies on the professional contractor to specify the brand of siding or window to be purchased, subject to the customer's price, color and quality requirements. Alside's daily contact with its contractor-customers also enables it to closely monitor activity in each of the remodeling and new construction markets in which Alside competes. This direct presence in the marketplace permits Alside to obtain current local market information, providing Alside with the ability to recognize trends in the marketplace earlier and adapt its product offerings on a location-by-location basis.

Many of Alside's contractor-customers install both vinyl siding and vinyl windows. Because Alside manufactures and distributes both vinyl windows and vinyl siding, its contractor-customers can acquire both products from a single source, which the Company believes provides Alside with a competitive advantage in marketing these products to its target customer base. Furthermore, Alside has the ability to achieve economies of scale in sales and marketing by developing integrated programs on either a national or local basis for its vinyl siding and vinyl window products.

Each of Alside's Supply Centers is evaluated as a separate profit center, and compensation of Supply Center personnel is based in part on the Supply Center's operating results. Decisions to open new Supply Centers, and to close or relocate existing Supply Centers, are based on Alside's continuing assessment of market conditions and individual location profitability. During 1999, Alside added three Supply Centers to its distribution network and closed two underperforming locations. The Company presently expects to open up to seven new Supply Centers in 2000. Alside has developed formal training and recruiting programs for Supply Center personnel which it expects to improve its ability to staff new locations.

Through certain of its Supply Centers, Alside's Builder Service Division provides full-service product installation of its vinyl siding products, principally to new homebuilders who value the importance of installation services. Alside also provides installation services for vinyl replacement windows through certain of its Supply Centers.

Alside sells its manufactured products to large direct dealers and distributors, generally in those areas where no Alside Supply Center currently exists. These sales accounted for approximately 21% of Alside's 1999 net sales. Despite their aggregate lower percentage of total sales, Alside's largest individual customers are its large direct dealers and independent distributors. Alside carefully monitors and evaluates its activity with these customers to ensure the profitability of this higher volume, lower margin business. No single customer accounted for 5% or more of Alside's 1999 sales. Alside increased its network of independent distributors in 1999 and intends to seek to further increase its network of independent distributors in 2000 in strategic areas to improve its penetration into certain markets.

Manufacturing. Prior to 1999, Alside manufactured all of its vinyl siding at its Ennis, Texas plant, which the Company believes is a low-cost manufacturing facility. During 1999, the Company completed construction of a new vinyl manufacturing facility in order to meet its sales expectations for Alside's siding products. This new facility is located in Freeport, Texas. The Freeport facility increased Alside's vinyl siding production capacity by approximately 25% over 1998 levels. Alside expects to transfer some production equipment from its Ennis, Texas plant to the Freeport plant in 2000. In addition, Alside plans to purchase additional extrusion equipment to further increase Freeport's capacity. The Company believes that the Freeport plant's capacity can be doubled with only moderate expenditures of \$3.0 million to \$4.0 million. Alside also operates a vinyl extrusion facility in West Salem, Ohio to produce vinyl window extrusions as well as vinyl fence and garage door panels. Alside operates three window fabrication plants which each use vinyl extrusions manufactured by Alside for the majority of their production requirements, produce their own glass inserts and utilize high speed welding and cleaning equipment for their welded window products. By producing its own vinyl extrusions and glass inserts, Alside believes it achieves significant cost savings and higher product quality compared to purchasing these materials from third-party suppliers.

Alside's vinyl extrusion plants generally operate on a three-shift basis to optimize equipment productivity and utilize additional equipment to increase capacity to meet higher seasonal needs. Alside's window plants generally operate on a single shift basis utilizing both a second shift and increased numbers of leased production personnel to meet higher seasonal needs.

Raw Materials. The principal raw materials used by Alside are vinyl resins, resin stabilizers and pigments, packaging materials, window hardware and glass, all of which are available from a number of suppliers. The price of vinyl resin has been, and may continue to be, volatile. Alside has a contract with its resin supplier to supply substantially all of its contract vinyl resin requirements and believes that its requirements could also be met by other suppliers. Alside generally had been able to pass through price increases in raw materials to its customers. The price of vinyl resin increased significantly during 1999. Alside implemented a price increase in late 1999 and a second price increase on January 1, 2000. Although gross profit margins on vinyl siding declined temporarily due to the time lag between vinyl resin cost increases and the selling price increases, these price increases have offset the 1999 increases in vinyl resin prices. Alside expects the price of vinyl resin to continue to increase in 2000 and has announced a price increase to its direct independent distributors effective the second quarter of 2000.

Competition. Except for Owens Corning, no company within the residential siding industry competes with Alside on both the manufacturing and distribution levels. There are, however, numerous small and large manufacturers of metal and vinyl siding products, some of whom are larger in size and have greater financial resources than the Company. Alside competes with Owens Corning and numerous large and small distributors of building products in its capacity as a distributor of these products. The market for vinyl replacement windows is highly fragmented, and Alside believes that no single

manufacturer accounts for a significant percentage of national sales. Alside believes that the market trend towards sales of welded vinyl windows, which Alside began manufacturing in 1992 and which require expensive, more sophisticated production equipment, will result in further consolidation of the window fabrication industry. Alside and its competitors generally compete on price, product performance, and sales and service support to professional contractors. Competition varies by region. Alside also faces competition from alternative materials: wood and aluminum in the window market, and wood, masonry and metal in the siding market. However, the Company believes Alside's products are competitive, and in most sectors are gaining share at the expense of these alternative materials due to vinyl's superior qualities, including its lower material cost, durability and low maintenance requirements.

AmerCable

AmerCable accounted for approximately 10% of the Company's net sales in 1999. AmerCable manufactures and markets a variety of jacketed electrical cable specially designed to meet industry technical standards and end-users' specifications. AmerCable divides its products into three categories: mining cables, marine and shipboard cables, and industrial cables, which accounted for 46%, 29% and 25% of its 1999 sales, respectively. AmerCable markets its cable principally to independent distributors who resell to the end user, except for certain marine products that are distributed through its Offshore/Marine Cable Specialists division.

The principal raw material used by AmerCable is copper strand, which is available from a number of suppliers. Historically, copper strand has been subject to rapid price changes. AmerCable generally prices its cable products based upon market prices for copper at time of shipment. As a result, sudden decreases in copper prices can result in inventory being in excess of its net realizable value. In certain instances, AmerCable may guarantee a fixed copper price for its products where there is a significant time lag between the purchase order and shipment. In these cases, AmerCable generally attempts to hedge its position on copper prices.

AmerCable competes with numerous large and small manufacturers. Many of its competitors have substantially greater resources than the Company. AmerCable generally does not compete in the more commodity-oriented wire and cable markets, such as residential building wire and computer network cable.

Amercord

In addition to its Alside and AmerCable divisions, the Company owns a 9.9% interest in Americord Inc. ("Americord"). Americord manufactures and markets steel cord and bead wire to the tire manufacturing industry. In the fourth quarter of 1999, Americord was recapitalized. In this transaction, the Company reduced its ownership in Americord from 50.0% to 9.9%. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Employees

Alside's employment needs vary seasonally with sales and production levels. As of December 31, 1999, Alside had approximately 1,800 full-time employees, including approximately 820 hourly workers. The West Salem, Ohio plant is Alside's only unionized manufacturing facility, employing approximately 90 covered workers as of December 31, 1999. Additionally, approximately 45 hourly workers in certain Supply Center locations are covered by collective bargaining agreements. The Company considers Alside's labor relations to be good.

Alside operates vinyl window manufacturing plants in Cedar Rapids, Iowa; Kinston, North Carolina; and Akron, Ohio with leased production employees. The Company believes that the employee leasing program provides it with scheduling flexibility for seasonal production loads and with competitive advantages in obtaining principally unskilled labor personnel. The aggregate number of leased employees in the window plants ranges from approximately 400 to 600 people, based on seasonal production requirements.

As of December 31, 1999, AmerCable employed approximately 195 people, including 112 hourly workers, none of whom are covered by collective bargaining agreements. AmerCable maintains good relations with its employees.

Trademarks and Patents

Alside has registered and nonregistered trade names and trademarks covering the principal brand names and product lines under which its products are marketed. Although Alside considers each of these items to be valuable, the Company does not currently believe this property, other than the "Alside®" trademark, to be material. Alside has obtained patents on certain claims associated with its siding products, which the Company believes distinguish Alside's products from those of its competitors.

Government Regulation and Environmental Matters

The Company is subject to numerous federal and state statutes and regulations relating to, among other things, air and water quality, the discharge of materials into the environment and safety and health issues. The Company does not expect compliance with these requirements to have a material impact on the Company's earnings or competitive position in the foreseeable future. Additionally, no significant capital expenditures are presently anticipated related to compliance with these requirements.

The Company entered into a consent order dated August 25, 1992 with the United States Environmental Protection Agency pertaining to corrective action requirements associated with the use of hazardous waste storage facilities at its Akron, Ohio location. With the exception of a small container storage area, the use of these facilities was terminated prior to the acquisition of the Alside assets by the Company from USX Corporation ("USX") in 1984. The effects of the past practices at this facility are continuing to be investigated pursuant to the terms of the consent order. The Company believes that USX bears financial responsibility for substantially all of the direct costs of corrective action at these facilities under the relevant contract terms and under statutory and common law. To date, USX has reimbursed the Company for substantially all of the direct costs of corrective action at these facilities, and the Company expects that USX will continue to reimburse the Company for substantially all of the direct costs of corrective action at these facilities. As a result, the Company believes that any material claims resulting from this proceeding will not have a material adverse effect on the Company.

Executive Officers and Key Employees

The following information concerning the executive officers and other key employees of the Company is as of March 9, 2000.

William W. Winspear, 66, has been Chairman of the Board, President and Chief Executive Officer of the Company since its inception in 1983. Mr. Winspear was President and Chief Executive Officer of Chaparral Steel Company from 1975 to 1982. Mr. Winspear is the father of Robert L. Winspear.

Donald L. Kaufman, 68, has been President of Alside since 1974 and has been Chief Executive Officer of Alside since 1982. Mr. Kaufman joined Alside in 1955 and became a Director and a Vice President of the Company in 1984.

Robert F. Hogan, 43, has been President and Chief Executive Officer of AmerCable since 1993 and Vice President of the Company since 1984. Prior to becoming President of AmerCable, Mr. Hogan was Treasurer and Secretary of the Company from 1984 to 1993.

Robert L. Winspear, 34, joined the Company in 1993, was named Vice President, Treasurer and Secretary in October 1993 and was named Chief Financial Officer in 1998. Prior to joining the Company, Mr. Winspear was a Senior in the Financial Consulting and Audit division of Arthur Andersen LLP, where he had been employed since 1988. Mr. Winspear is the son of William W. Winspear.

James R. Bussman, 52, has been Executive Vice President – Corporate Services of Alside since 1983. Mr. Bussman has held various other positions with Alside since 1972, and was named a Vice President of the Company in 1984.

Michael R. St. Clair, 53, was named Executive Vice President – Finance of Alside in 1994. Mr. St. Clair had been Senior Vice President – Finance of Alside since joining the Company from The Warner & Swasey Company, Inc., a machine tool manufacturing company, in 1985. Mr. St. Clair was named a Vice President of the Company in 1986.

Michael Caporale, Jr., 48, joined the Company in January 2000 as President, Alside Window Manufacturing. From 1995 to 1999 Mr. Caporale was employed by Great Lakes Window, most recently as President.

Wayne D. Fredrick, 53, was named Group Vice President – Window Products of Alside in 1997. From 1990 to 1996, Mr. Fredrick was Senior Vice President – Window Products of Alside. Mr. Fredrick joined Alside in 1973.

Benjamin L. McGarry, 52, was named Group Vice President – Vinyl Manufacturing of Alside in 1997. From 1984 to 1996, Mr. McGarry was Senior Vice President – Manufacturing of Alside. Mr. McGarry joined Alside in 1980.

James E. Renshaw, 52, joined the Company in 1998 as President, Alside Supply Centers. From 1983 to 1998 Mr. Renshaw was employed by Sherwin-Williams, most recently as President and General Manager of Sherwin-Williams Eastern Division.

Officers of the Company serve at the discretion of the Board of Directors. Messrs. Bussman, St. Clair, Caporale, Fredrick, McGarry and Renshaw are considered key employees of the Company because of their responsibilities as divisional officers in the respective capacities indicated. The Company, however, does not consider these employees to be executive officers of the Company.

ITEM 2. PROPERTIES

The Company's operations include both owned and leased facilities as described below:

<u>Location</u>	<u>Principal Use</u>	<u>Square Feet</u>
Alside		
Akron, Ohio	Alside Headquarters	70,000
	Vinyl Windows, Vinyl Fencing and Vinyl Garage Doors	577,000
Ennis, Texas	Vinyl Siding Products, Vinyl Fencing	301,000
Freeport, Texas	Vinyl Siding Products	120,000
West Salem, Ohio	Vinyl Window Extrusions, Fencing and Garage Door Panels	173,000
Liberty, North Carolina	Cabinets	159,000
Kinston, North Carolina	Vinyl Windows	319,000 (1)
Cedar Rapids, Iowa	Vinyl Windows	128,000 (1)
AmerCable		
El Dorado, Arkansas	AmerCable Headquarters and Electrical Cable	317,000
Houston, Texas	Cable Distribution	33,000 (1)

(1) Leased facilities.

Management believes that the Company's facilities are generally in good operating condition and are adequate to meet anticipated requirements in the near future.

Alside also operates 70 Alside Supply Centers in major metropolitan areas throughout the United States. Except for one owned location in Akron, Ohio, the Company leases its Supply Centers for terms generally ranging from five to seven years with renewal options. The Supply Centers range in size from 6,000 square feet to 50,000 square feet depending on sales volume and the breadth and type of products offered at each location.

The leases for Alside's window plants extend through 2000 for the Cedar Rapids location and 2003 for the Kinston location. Each lease is renewable at the Company's option for an additional five-year period. The Company's corporate headquarters occupy approximately 3,500 square feet of leased office space in Dallas, Texas. Under the Company's existing credit agreement with KeyBank, N.A. (the "Credit Agreement"), the bank lender holds a security interest in the Company's contract rights, including real property leases.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved from time to time in litigation arising in the ordinary course of its business, none of which, after giving effect to the Company's existing insurance coverage, is expected to have a material adverse effect on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

The Company's Common Stock is traded on The Nasdaq National Market with the ticker symbol "SIDE." The following table shows the price range of the Company's Common Stock since it began trading on a "when issued" basis on February 26, 1998:

		<i>Prices</i>	
	<i>Quarter</i>	<i>High</i>	<i>Low</i>
1998	First (commencing February 26)	\$20.00	\$16.00
1998	Second	19.88	12.63
1998	Third	13.50	7.50
1998	Fourth	11.75	5.94
	Year	\$20.00	\$5.94
1999	First	\$11.69	\$10.13
1999	Second	15.00	10.50
1999	Third	16.00	13.00
1999	Fourth	16.38	14.00
	Year	\$16.38	\$10.13

Holders

At March 9, 2000, the Company had 44 record holders of Common Stock. The Prudential Insurance Company of America ("Prudential") is the record holder of all 1,550,000 shares of the Company's outstanding Class B Common Stock, par value \$.0025 per share ("Class B Common Stock"), which shares of Class B Common Stock are convertible, at the holder's option, into shares of Common Stock on a basis of one share of Common Stock for each share of Class B Common Stock. In this report, the Company's Common Stock and Class B Common Stock are referred to collectively as "common shares."

Dividends

The Company paid dividends of \$0.075 and \$0.10 per common share in 1998 and 1999, respectively. On March 1, 2000, the Board of Directors of the Company announced a cash dividend of \$0.10 per common share payable to stockholders of record on March 20, 2000. The Company presently intends to pay an annual cash dividend. However, the Company's future dividend policy will depend upon the Company's capital requirements, results of operations, financial condition and other factors as the Company's Board of Directors deems relevant. Further, the payment of cash dividends is restricted by covenants in the Credit Agreement and the Indenture pursuant to which the Company's 9¼% Senior Subordinated Notes ("9¼% Notes") were issued.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information set forth below for the five-year period ended December 31, 1999 was derived from the financial statements of the Company which have been audited by Ernst & Young LLP, independent auditors. The data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements, related notes and other financial information included elsewhere in this report.

	Year Ended December 31,				
	1995	1996	1997	1998	1999
	(in thousands, except per share data)				
Income Statement Data:					
Net sales.....	\$ 350,029	\$ 356,471	\$ 397,690	\$ 407,933	\$ 452,586
Cost of sales.....	<u>264,080</u>	<u>255,579</u>	<u>283,514</u>	<u>283,644</u>	<u>314,914</u>
Gross profit.....	85,949	100,892	114,176	124,289	137,672
Selling, general and administrative expenses.....	73,207	77,740	81,142	88,727	96,028
Other income, net (1).....	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,673</u>	<u>—</u>
Income from operations.....	12,742	23,152	33,034	38,235	41,644
Interest expense.....	11,474	10,882	9,795	7,565	6,779
Equity in (earnings) loss of Amercord (2).....	(537)	(1,724)	626	1,881	1,337
Writedown of Amercord (3).....	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,351</u>	<u>—</u>
Income before income tax expense.....	1,805	13,994	22,613	24,438	33,528
Income tax expense.....	<u>545</u>	<u>5,172</u>	<u>9,524</u>	<u>11,382</u>	<u>13,038</u>
Income before extraordinary item.....	1,260	8,822	13,089	13,056	20,490
Extraordinary item (4).....	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,107</u>	<u>—</u>
Net income.....	<u>\$ 1,260</u>	<u>\$ 8,822</u>	<u>\$ 13,089</u>	<u>\$ 8,949</u>	<u>\$ 20,490</u>
Share Data:					
Basic earnings per common share before extraordinary item.....	\$ 0.17	\$ 1.16	\$ 1.72	\$ 1.58	\$ 2.52
Diluted earnings per common share before extraordinary item (5).....	0.16	1.14	1.69	1.55	2.46
Weighted average number of diluted shares.....	7,695	7,746	7,756	8,403	8,344
Dividends per share.....	\$ —	\$ —	\$ 0.05	\$ 0.075	\$ 0.100
Other Data:					
EBITDA (6).....	\$ 18,082	\$ 29,025	\$ 39,555	\$ 45,452	\$ 50,163
Capital expenditures.....	7,683	8,110	8,758	14,261	18,915
Cash provided by operating activities.....	5,328	15,055	22,496	26,768	15,229
Cash used in investing activities.....	(7,203)	(8,087)	(7,941)	(14,712)	(17,619)
Cash provided by (used in) financing activities..	2,452	(6,863)	(15,004)	973	(9,142)
Ratio of EBITDA to interest expense.....	1.58x	2.67x	4.04x	6.01x	7.40x

	<u>December 31,</u>				
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
	<u>(in thousands)</u>				
Balance Sheet Data:					
Working capital	\$ 46,551	\$ 51,821	\$ 61,191	\$ 79,225	\$ 85,878
Total assets	172,053	177,709	178,504	189,319	206,296
Short-term debt, including current maturities.....	19,921	14,808	2,314	3,600	—
Long-term debt, less current maturities	82,100	80,350	78,600	75,000	75,000
Stockholders' equity	23,306	32,246	44,734	64,378	79,326

- (1) The Company recorded a \$5.9 million curtailment gain due to the freeze of the Alside Retirement Plan at December 31, 1998. The Company also accrued an additional \$3.3 million expense for retiree medical benefits related to the 1989 closure of Alside's metal siding plant.
- (2) In 1996, the Company's equity in the earnings of Amercord was affected by a change in accounting principle, a settlement of a royalty dispute and an asset impairment writedown, the net amount of which was approximately \$800,000 in income.
- (3) The Company recorded a pretax writedown on its investment in Amercord in anticipation of a loss on the sale of Amercord.

(footnotes continued on the following page)

- (4) The extraordinary item represents, net of tax, the loss recognized on the writeoff of debt issuance costs and the prepayment premium paid on the purchase of the Company's 11½% Senior Subordinated Notes ("11½% Notes") in 1998.
- (5) In accordance with the Commission Staff Accounting Bulletin, Topic 4D, shares of Common Stock issued during the 12-month period prior to the Company's initial public offering at prices below the initial public offering price have been included in the calculation as if these shares were outstanding for all periods presented. Earnings per share for all periods prior to the initial public offering in 1998 were computed in accordance with Topic 4D.
- (6) EBITDA is calculated as income from operations plus depreciation and amortization. The Company has included information concerning EBITDA because it believes that EBITDA is used by certain investors as one measure of an issuer's historical ability to service its debt. EBITDA should not be considered as an alternative to, or more meaningful than, net income as an indicator of the Company's operating performance or to cash flows as a measure of liquidity. EBITDA as presented above for the Company may not be comparable to similarly titled measures reported by other companies.

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

Overview

General. The Company consists of two operating divisions, Alside and AmerCable. In addition, the Company owns an interest in Amercord, which was accounted for using the equity method until November 1999 when it was recapitalized, reducing the Company's interest in Amercord from 50% to 9.9%. Since the recapitalization, the Company has accounted for Amercord under the cost method.

The Company's results of operations are primarily affected by the operating results of Alside, which accounted for more than 86% of the Company's net sales in each of the last three years. Because its residential building products are consumer durable goods, Alside's sales are impacted by the availability of consumer credit, consumer interest rates, employment trends, changes in levels of consumer confidence, national and regional trends in new housing starts and general economic conditions. Alside's sales are also affected by changes in consumer preferences with respect to types of building products. Alside's products are used in the repair and remodeling, as well as the new construction, sectors of the building industry. For each of the three years in the period ended December 31, 1999, Alside believes that its sales were made primarily to the repair and remodeling sector.

The Company believes that vinyl building products will continue to gain market share from metal and wood products due to vinyl's favorable attributes, which include its durability, lower maintenance cost and lower cost compared to wood and metal. Although no assurances can be given, the Company further believes that these increases in market share, together with Alside's increased marketing efforts, will increase Alside's sales of vinyl siding, vinyl windows and other complementary building products.

The Company operates with substantial operating and financial leverage. Significant portions of Alside's selling, general and administrative expenses are fixed costs that neither increase nor decrease proportionately with sales. As a result, a percentage change in Alside's net sales will have a greater percentage effect on Alside's income from operations. In addition, interest expense related to the Company's long-term debt is fixed.

AmerCable. AmerCable focuses on a core group of cable products that it believes better utilize its manufacturing efficiencies and marketing and distribution capabilities. Its cable products are used primarily in the mining and offshore drilling industries; therefore, AmerCable's results can be affected by a slowdown in the mining and offshore drilling industries as a result of lower commodity prices. AmerCable's sales can also be affected by the price of copper as AmerCable generally prices its cable products based upon market prices for copper at the time of shipment.

Amercord. The Company recorded a \$4.4 million writedown on its investment in Amercord in 1998 in anticipation of a loss on the sale of Amercord. In November 1999, Amercord was recapitalized, and in that transaction the Company's interest in Amercord was reduced from 50% to 9.9%. As a result of the recapitalization, the Company received \$1.2 million in cash (net of related expenses) and a subordinated note for \$1.5 million due November 2004. The Company has the right to require Amercord to purchase the Company's remaining 9.9% interest for \$2.0 million in November 2003.

Segment Data. Alside accounted for more than 86% of the Company's net sales and income from operations in each of the three years in the period ended December 31, 1999. In 1999, Alside accounted for approximately 94% of the Company's income from operations exclusive of corporate selling, general and administrative expenses. Management believes that a discussion of the Company's results and financial position for these periods is enhanced by presenting segment information for Alside and AmerCable. The tables below set forth for the periods indicated certain items from the Company's financial statements:

	Years Ended December 31,					
	1999		1998		1997	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales	Amount	% of Total Net Sales
(in thousands)						
Consolidated:						
Net sales – Alside.....	\$408,428	90.2%	\$355,997	87.3%	\$344,000	86.5%
Net sales – AmerCable.....	<u>44,158</u>	<u>9.8</u>	<u>51,936</u>	<u>12.7</u>	<u>53,690</u>	<u>13.5</u>
Total net sales.....	452,586	100.0	407,933	100.0	397,690	100.0
Gross profit	137,672	30.4	124,289	30.5	114,176	28.7
Selling, general and administrative expenses (1).....	96,028	21.2	88,727	21.8	81,142	20.4
Other income, net.....	<u>—</u>	<u>—</u>	<u>2,673</u>	<u>0.7</u>	<u>—</u>	<u>—</u>
Income from operations	41,644	9.2	38,235	9.4	33,034	8.3
Interest expense.....	6,779	1.5	7,565	1.9	9,795	2.5
Equity in loss of Amercord	1,337	0.3	1,881	0.4	626	0.1
Writedown of Amercord	<u>—</u>	<u>—</u>	<u>4,351</u>	<u>1.1</u>	<u>—</u>	<u>—</u>
Income before income tax expense	33,528	7.4	24,438	6.0	22,613	5.7
Income tax expense	<u>13,038</u>	<u>2.9</u>	<u>11,382</u>	<u>2.8</u>	<u>9,524</u>	<u>2.4</u>
Income before extraordinary item	<u>\$ 20,490</u>	<u>4.5%</u>	<u>\$ 13,056</u>	<u>3.2%</u>	<u>\$ 13,089</u>	<u>3.3%</u>
Alside:						
Net sales	\$408,428	100.0%	\$355,997	100.0%	\$344,000	100.0%
Gross profit	129,996	31.8	113,797	32.0	104,716	30.4
Selling, general and administrative expenses.....	87,588	21.4	81,282	22.8	74,301	21.6
Other income, net.....	<u>—</u>	<u>—</u>	<u>2,673</u>	<u>0.7</u>	<u>—</u>	<u>—</u>
Income from operations	<u>\$ 42,408</u>	<u>10.4%</u>	<u>\$ 35,188</u>	<u>9.9%</u>	<u>\$ 30,415</u>	<u>8.8%</u>
AmerCable:						
Net sales	\$ 44,158	100.0%	\$ 51,936	100.0%	\$ 53,690	100.0%
Gross profit	7,676	17.4	10,492	20.2	9,460	17.6
Selling, general and administrative expenses.....	<u>4,801</u>	<u>10.9</u>	<u>4,718</u>	<u>9.1</u>	<u>4,374</u>	<u>8.1</u>
Income from operations	<u>\$ 2,875</u>	<u>6.5%</u>	<u>\$ 5,774</u>	<u>11.1%</u>	<u>\$ 5,086</u>	<u>9.5%</u>

(1) Consolidated selling, general and administrative expenses include corporate expenses of \$3.6 million, \$2.7 million and \$2.5 million for the years 1999, 1998 and 1997, respectively.

Results of Operations

Year Ended December 31, 1999 compared to the Year Ended December 31, 1998

General. The Company's net sales increased 11.0% to \$452.6 million in 1999 as compared to \$407.9 million in 1998 due to higher sales at the Company's Alside division. Income from operations increased to \$41.6 million as compared to \$38.2 million in 1998 due to increased profitability at Alside, which was partially offset by AmerCable's results from operations. Income before extraordinary item was \$20.5 million or \$2.46 per share on 8.3 million weighted average shares in 1999 as compared to \$13.1 million or \$1.55 per share on 8.4 million weighted average shares in 1998. The Company's 1998 income before extraordinary item was \$14.7 million or \$1.75 per share exclusive of the one-time accounting adjustments.

Alside. Alside's net sales increased 14.7% to \$408.4 million in 1999 as compared to \$356.0 million in 1998 due primarily to higher sales volume. Alside's sales increased across all product lines in 1999 as compared to 1998. During 1999, unit sales of vinyl siding and vinyl windows increased 16.2% and 11.0%, respectively, as compared to 1998. Gross profit as a percentage of net sales decreased slightly to 31.8% in 1999 as compared to 32.0%. Selling, general and administrative expense increased 7.8% to \$87.6 million in 1999 as compared to \$81.3 million in 1998 but decreased as a percentage of net sales. The increase in selling, general and administrative expense was due primarily to higher personnel costs, including incentive compensation. Income from operations increased \$7.2 million, or 20.5% to \$42.4 million in 1999 as compared to \$35.2 million in 1998 due to higher sales and favorable fixed cost absorption. Exclusive of the \$2.7 million one-time accounting adjustments recorded in 1998 as discussed below, income from operations increased \$9.9 million or 30.4%.

AmerCable. AmerCable's net sales decreased to \$44.2 million in 1999 as compared to \$51.9 million in 1998 due primarily to lower sales volume of mining and offshore drilling products. Lower commodity prices resulted in decreased demand for mining and offshore drilling cable. Commodity prices improved during the last half of 1999. Gross profit as a percentage of net sales decreased to 17.4% in 1999 as compared to 20.2% in 1998 due to lower sales volume and lower fixed cost absorption resulting from lower production volume. Selling, general and administrative expense increased to \$4.8 million in 1999 as compared to \$4.7 million in 1998 as lower incentive compensation was offset by higher personnel costs resulting from the hiring of additional sales personnel as well as higher advertising expenditures. Income from operations decreased to \$2.9 million in 1999 as compared to \$5.8 million in 1998 due primarily to lower sales volume and lower fixed cost absorption.

Amercord. In November 1999, Americord was recapitalized. In this transaction, the Company's interest in Americord was reduced from 50% to 9.9%. As a result of the recapitalization, the Company received cash of \$1.2 million (net of related expenses) and a subordinated note for \$1.5 million due November 2004. In addition, the Company has the right to require Americord to purchase the Company's remaining 9.9% interest for \$2.0 million in November 2003. The Company currently accounts for Americord using the cost method of accounting. Prior to Americord's recapitalization, the Company accounted for Americord using the equity method of accounting. The Company recorded a loss of \$1.3 million on its equity in the losses of Americord during 1999.

Other. Net interest expense decreased \$786,000 or 10.4% in 1999 as compared to 1998 primarily due to a decrease in the Company's borrowings and the repayment of the Company's taxable notes in April 1999. The Company recorded interest income of \$329,000 in 1999. The Company's effective tax rate decreased to 38.9% in 1999 due to lower state taxes. In 1998, the Company's Board of Directors approved a stock repurchase program of up to 800,000 shares of Common Stock. During 1999, the Company repurchased 467,000 shares of Common Stock under this program, which increased earnings per share by \$0.07 per share (after interest and tax effects).

Year Ended December 31, 1998 compared to the Year Ended December 31, 1997

General. The Company's net sales increased \$10.2 million to \$407.9 million in 1998 as compared to \$397.7 million in 1997 due to higher sales at the Company's Alside division. Income from operations increased \$5.2 million or 15.7% to \$38.2 million in 1998 due to increased profitability at both the Alside and AmerCable divisions and \$2.7 million of additional operating income resulting from one-time accounting adjustments at Alside. The Company recorded a pretax writedown of \$4.4 million on its Americord investment in anticipation of the sale of Americord. The Company's income before extraordinary item was \$13.1 million, or \$1.55 per share on 8.4 million weighted average shares in 1998 as compared to \$13.1 million, or \$1.69 per share on 7.8 million shares in 1997. Exclusive of the one-time accounting adjustments and the extraordinary item, the Company's net income was \$14.7 million or \$1.75 per diluted share for the year ended December 31, 1998.

Alside. Net sales increased \$12.0 million or 3.5% to \$356.0 million in 1998 from \$344.0 million in 1997 due to higher sales along all product lines with the exception of vinyl windows. Net sales of vinyl siding, kitchen cabinets and vinyl fence increased 9.4%, 14.4% and 17.8% respectively in 1998 as compared to 1997. Unit sales of vinyl windows decreased 10.6% in 1998 compared to 1997 due to the loss of two customers, one of which ceased operations due to financial difficulties. Gross profit as a percentage of net sales increased to 32.0% in 1998 from 30.4% in 1997 due primarily to lower resin prices which were partially offset by the manufacturing inefficiencies at Alside's window manufacturing plants. Alside has since reorganized its window manufacturing management and operations to improve quality, increase customer responsiveness and lower costs. Selling, general and administrative expense increased 9.4% to \$81.3 million in 1998 from \$74.3 million in 1997 due primarily to higher personnel costs, lease expenses and advertising costs. The higher costs were the result of increases to Alside's sales force, the addition of new and expanded Supply Center locations and an enhanced focus on sales and marketing. Alside recorded a \$5.9 million curtailment gain upon freezing the Alside Retirement

Plan on December 31, 1998. Alside also accrued an additional \$3.3 million for retiree medical benefits related to the 1989 closing of its metal siding plant. This additional accrual was based upon a recent actuarial study taking into account unfavorable claims experience. The net effect of these adjustments was a \$2.7 million increase in operating income. Income from operations as a percentage of sales increased to 9.9% in 1998 from 8.8% in 1997 due to increased profits and the accounting adjustments discussed above.

AmerCable. AmerCable's net sales decreased 3.3% to \$51.9 million in 1998 as compared to \$53.7 million in 1997 due primarily to lower copper prices. AmerCable's products are generally sold with copper as a pass-through component. AmerCable's net sales would have been approximately \$55.1 million if adjusted to 1997 copper prices. Gross profit as a percentage of sales increased to 20.2% in 1998 as compared to 17.6% in 1997 due primarily to improved product mix. Selling, general and administrative expense increased 7.9% to \$4.7 million in 1998 as compared to \$4.4 million in 1997 due to higher personnel costs. Income from operations increased 13.5% to \$5.8 million in 1998 from \$5.1 million in 1997 due to higher gross profits which were partially offset by higher selling, general and administrative expense.

Amercord. The Company recorded a loss of \$1.9 million (or \$0.22 per share) reflecting its share of the after-tax loss of Americord for the year ended 1998 as compared to a loss of \$626,000 for the same period in 1997. Americord's loss from operations increased to \$4.6 million in 1998 as compared to \$469,000 for 1997. The higher losses in 1998 were due primarily to lower average sales prices for both tire cord and tire bead. Manufacturing efficiencies have continued to improve at Americord but were more than offset by a 9.1% decrease in average sales price.

Other. Net interest expense decreased \$2.2 million or 22.8% in 1998 as compared to 1997 primarily due to a decrease in the Company's borrowings, the purchase of the 11½% Notes and the issuance of the 9¼% Notes. The Company recorded interest income of \$413,000 in 1998.

Extraordinary Item. In March 1998, the Company purchased \$72.9 million of its outstanding 11½% Notes through a tender offer and consent solicitation. In August 1998, the Company redeemed the \$2.1 million principal amount of the 11½% Notes that remained outstanding after the tender offer. As a result of the transactions, the Company incurred an extraordinary charge of approximately \$4.1 million net of taxes of \$2.9 million resulting from the write-off of debt issuance costs and the premium paid in connection with the purchase and redemption of the 11½% Notes.

Quarterly Financial Data

General. Because most of Alside's building products are intended for exterior use, Alside's sales and operating profits tend to be lower during periods of inclement weather. Weather conditions in the first quarter of each calendar year historically result in that quarter producing significantly less sales revenue than in any other period of the year. As a result, the Company has historically had small profits or losses in the first quarter, and reduced profits in the fourth quarter of each calendar year due to the significant impact of Alside on the Company's performance.

Quarterly sales and operating profit data for the Company in 1998 and 1999 are shown in the table below:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
1998				
Net sales - Alside.....	\$ 64,393	\$ 94,961	\$102,593	\$ 94,050
Net sales - AmerCable.....	<u>14,257</u>	<u>13,828</u>	<u>11,608</u>	<u>12,243</u>
Total net sales.....	78,650	108,789	114,201	106,293
Gross profit.....	22,330	34,089	36,530	31,340
Income from operations (1).....	1,856	12,038	12,574	11,767
Income (loss) before extraordinary item (2).....	(767)	5,385	5,741	2,697
Basic earnings (loss) per common share				
before extraordinary item	(0.10)	0.64	0.68	0.32
Diluted earnings (loss) per common share				
before extraordinary item	(0.10)	0.63	0.67	0.32
1999				
Net sales - Alside.....	\$ 74,109	\$109,155	\$117,466	\$107,698
Net sales - AmerCable.....	<u>10,488</u>	<u>9,753</u>	<u>10,922</u>	<u>12,995</u>
Total net sales.....	84,597	118,908	128,388	120,693
Gross profit.....	25,155	38,833	39,468	34,216
Income from operations.....	3,260	14,587	14,464	9,333
Net Income.....	800	7,596	7,332	4,762
Basic earnings per common share	0.10	0.94	0.91	0.59
Diluted earnings per common share.....	0.09	0.91	0.88	0.58

- (1) The Company recorded a \$5.9 million curtailment gain due to the freeze of the Alside Retirement Plan at December 31, 1998. The Company also accrued an additional \$3.3 million expense for retiree medical benefits related to the 1989 closure of Alside's metal siding plant.
- (2) The Company recorded a pretax writedown on its investment in Amercord in anticipation of a loss on the sale of Amercord.

Liquidity and Capital Resources

Net cash provided by operating activities was \$15.2 million, \$26.8 million and \$22.5 million in 1999, 1998 and 1997, respectively. The decrease in operating cash flow in 1999 was primarily due to higher accounts receivable and inventory balances at year-end. The increase in accounts receivable was due to the 15% increase in fourth quarter 1999 sales as compared to the same period in 1998. Increased year-end inventory balances resulted from higher finished goods at Alside's Supply Centers due to higher sales and higher raw materials at its window manufacturing operations due to poor inventory management. AmerCable's inventory levels increased due to the expansion of its consigned inventory program in order to ensure its large customers have adequate inventory in stock. The increased operating cash flows in 1998 were due to improved operating performance at Alside and AmerCable, as well as lower working capital requirements in 1998 as compared to 1997.

In May 1999, the Company amended its existing \$50 million bank credit facility to extend the term of the facility through May 2002. Available borrowings under the Credit Agreement are limited to the lesser of the total facility less unused letters of credit or availability based on percentages of eligible accounts receivable and inventories. The Credit Agreement is secured by substantially all of the Company's assets other than the Company's owned real property, equipment and its interest in Amercord. At December 31, 1999, \$1.6 million of this facility had been used to secure various insurance letters of credit. At December 31, 1999 the Company had an available borrowing capacity under the Credit Agreement of approximately \$48.4 million.

Capital expenditures totaled \$18.9 million, \$14.3 million and \$8.8 million in 1999, 1998 and 1997, respectively. Expenditures in 1999 were primarily used to complete the new vinyl siding manufacturing facility, expand extrusion capacity for window profiles and vinyl fence, expand capacity and increase manufacturing efficiency for semi-custom cabinets and increase production flexibility and capacity at AmerCable. Capital expenditures on the new vinyl siding manufacturing plant were \$9.8 million in 1999. 1998 expenditures were primarily used to increase window welding and assembly capacity and to increase vinyl siding extrusion and blending capacity, including the construction of the new Freeport vinyl siding manufacturing plant. Capital expenditures on the new vinyl siding manufacturing plant were

\$4.2 million in 1998. Expenditures in 1997 were primarily used to increase vinyl extrusion capacity for siding, windows and fencing as well as to increase and automate window fabrication capacity. The Company has historically funded these capital expenditure requirements out of cash generated from operating activities or borrowings under its bank credit facility.

The Company believes that capital expenditures ranging from \$8.0 million to \$10.0 million represent a base level of spending needed to maintain its manufacturing facilities as well as provide for modest increases in capacity and further automation. The Board of Directors has approved capital expenditures of \$9.8 million for 2000. Presently anticipated capital expenditures in 2000 will increase extrusion capacity for vinyl siding, vinyl fence and window profiles. Approximately \$1.2 million of the 2000 capital expenditures have been allocated to AmerCable, primarily for capacity expansion and process improvements.

In March 1998, the Company completed a tender offer and consent solicitation with respect to its 11½% Notes. In the tender offer, the Company purchased \$72.9 million of the \$75.0 million 11½% Notes. Simultaneously with the consummation of the tender offer, the Company issued \$75.0 million of 9¼% Notes. Concurrently with these transactions, the Company completed an initial public offering of 2,448,120 shares of Common Stock of which 808,520 shares were sold by the Company. The remaining 1,639,600 shares were sold by certain of the Company's stockholders, including the holder of the Class B Common Stock who converted 1,150,000 shares of Class B Common Stock into Common Stock on a one-to-one basis in connection with the offering. Net proceeds to the Company, after underwriting discounts and offering expenses, from the Common Stock and 9¼% Note offerings were \$11.5 million and \$72.4 million, respectively. The Company redeemed the \$2.1 million principal amount of 11½% Notes that remained outstanding in August 1998.

In connection with the recapitalization of Americord in November 1999, the Company guaranteed a \$3.0 million note secured by Americord's real property. Should the guarantee be exercised by Americord's lender, the Company and Ivaco Inc. ("Ivaco") have the option to assume the loan. Ivaco has indemnified the Company for 50% of any loss under the guarantee.

Effective October 1, 1998, the Company established an Employee Stock Purchase Plan ("ESPP"). Employees participating in the ESPP can purchase shares of Common Stock at a 15% discount to fair market value through payroll deductions of up to 25% of their eligible compensation. The Company registered 250,000 shares of Common Stock with the Securities and Exchange Commission ("SEC") in September 1998 for issuance pursuant to the ESPP. During 1999 and 1998, the Company issued 80,919 and 35,327 shares of Common Stock pursuant to ESPP, resulting in net proceeds to the Company of approximately \$851,000 and \$225,000, respectively.

On October 27, 1998 the Company's Board of Directors approved a program to repurchase up to 800,000 shares of Common Stock in open market transactions depending on market, economic and other factors. At December 31, 1999, the Company had repurchased 514,000 shares of Common Stock under this program at a cost of \$6.1 million.

The Company believes the future cash flows from operations and its borrowing capacity under its existing credit agreement will be sufficient to satisfy its obligations to pay principal and interest on its outstanding debt, maintain current operations, provide sufficient capital for presently anticipated capital expenditures and fund its stock repurchase program. However, there can be no assurances that the cash so generated by the Company will be sufficient for these purposes.

Year 2000

The Company began its Year 2000 program in 1997 in order to ensure all systems were Year 2000 compliant. The Company completed all modifications necessary to ensure its systems were Year 2000 compliant during the fourth quarter of 1999. To date, the Company has not experienced any Year 2000 problems with its systems or with its suppliers. The Company will continue to monitor and evaluate Year 2000 issues to determine the possible risks that may affect the Company's operations. The Company's costs to address Year 2000 issues were approximately \$350,000.

Effects of Inflation

The Company believes that the effects of inflation on its operations have not been material during the past three years. Inflation could adversely affect the Company if inflation results in significantly higher interest rates or substantial weakness in economic conditions. Alside's principal raw material, vinyl resin, has been subject to rapid price changes. Although Alside has historically been able to pass on price increases to its customers, during 1997 Alside did not generally pass on any additional costs or savings resulting from changes in resin prices. The price of vinyl resin increased significantly during 1999. Alside implemented a price increase in late 1999 and a second price increase on January 1, 2000. Although gross profit margins on vinyl siding declined temporarily due to the time lag between vinyl resin cost increases and the selling price increases, the price increases have offset the 1999 increases in vinyl resin prices. Alside expects the price of

vinyl resin to continue to increase in 2000 and has announced a price increase to its direct independent distributors effective the second quarter of 2000. No assurances can be given that Alside will be able to pass on any price increases in the future.

Financial Accounting Standards

In June 1999 the Financial Accounting Standards Board issued Statement of Financial Accounting No. 137, "Deferral of the Effective Date of FASB Statement 133" which defers the implementation of Statement 133 for one year. The Company believes Statement No. 133 will not have a material effect on the Company's financial position, results of operations or cash flows.

Certain Forward-Looking Statements

This report contains "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the beliefs of, and estimates and assumptions made by and information currently available to, the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," and similar words, as they relate to the Company or the Company's management, identify forward-looking statements. These statements reflect the current views of the Company's management regarding the operations and results of operations of the Company as well as its customers and suppliers. These statements are subject to certain risks and uncertainties. Some of the factors that might cause a difference are discussed below. Should one or more of these risks or uncertainties occur, or should management's assumptions or estimates prove incorrect, actual results and events may vary materially from those discussed in the forward-looking statements.

General Industry, Economic, Interest Rates and Other Conditions. The exterior residential building products industry in which Alside operates may be significantly affected by changes in national and local economic and other conditions, including employment levels, changing demographic considerations, availability of financing, interest rates and consumer confidence, all of which are outside of the Company's control. A prolonged recession affecting the residential construction industry could result in a significant decrease in the Company's financial performance.

Substantial Fixed Costs. A significant portion of Alside's selling, general and administrative expenses are fixed costs which do not fluctuate proportionately with sales. As a result, a percentage decline in Alside's net sales has a greater percentage effect on Alside's operating income.

Changing Raw Material Costs and Availability. The principal raw material used in producing Alside's vinyl products is vinyl resin, which historically has changed significantly in price. Although Alside has generally been able to pass on price increases in vinyl resin to its customers, there can be no assurance that in the future the market will respond favorably to selling price increases or that the Company will otherwise be able to absorb these cost increases without significantly affecting its margins. Additionally, a major interruption in the delivery of vinyl resin to Alside would disrupt Alside's operations and could have an adverse effect on the Company's financial condition and results of operations. Alside has contracts with a vendor to supply substantially all of its vinyl resin requirements and believes its requirements could also be met by other suppliers. Copper is the principal raw material used by AmerCable in the manufacture of its products. Historically, copper has been subject to rapid price changes. A decrease in the price of copper may also affect the Company's gross margins as AmerCable generally prices its cable products based on market prices for copper at the time of shipment. As a result, sudden decreases in copper prices can result in lower gross profit margins in future periods. See Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report.

Substantial Financial Leverage. The Company has substantial financial leverage. As of December 31, 1999, the Company's total indebtedness was approximately \$75.0 million and its stockholders' equity was \$79.3 million. The Company's high level of indebtedness presents certain risks to its security holders and could adversely affect, among other things, the ability of the Company to obtain additional financing in the future and to respond to market and general economic conditions, extraordinary capital requirements and other factors. The Company's bank credit agreement includes covenants that require the maintenance of certain financial ratios and net worth. This credit agreement also restricts the Company's ability to repurchase its Common Stock and to pay dividends. Outstanding borrowings under the bank credit agreement are secured by substantially all of the assets of the Company other than the Company's real property, equipment and its interests in Amercord. In addition, the Indenture under which the Company's 9¼% notes were issued contains covenants that, among other things, limits the Company's ability to incur additional indebtedness, pay dividends, make certain investments and repurchase stock or subordinated indebtedness. See Item 7. — "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in this report.

Weather Impacts Quarterly Results. Because most of Alside's building products are intended for exterior use, sales tend to be lower during periods of inclement weather. Weather conditions in the first quarter of each calendar year usually result in that quarter producing significantly less sales revenue than in any other period of the year. Consequently, the Company has historically had small profits or losses in the first quarter and reduced profits from operations in the fourth quarter of each calendar year. See Item 7. — "Management's Discussion and Analysis of Financial Condition and Results of Operations — Quarterly Financial Data" in this report.

Competition from Other Vinyl Building Product Manufacturers and Alternative Building Product Materials. With the exception of Owens Corning, no other company within the vinyl residential siding market competes with Alside in both manufacturing and distribution. However, Alside does compete with other manufacturers of vinyl building products. Some of these companies are larger and have greater financial resources than the Company. The Company also competes with Owens Corning and numerous large and small distributors of building products in its capacity as a distributor of these products. Additionally, the Company's products face competition from alternative materials: wood and aluminum in the window market, and wood, masonry and metal in the siding market. There can be no assurance the Company will not be adversely impacted by its competitors or alternative materials. See Item 1. — "Business — Alside — Competition" in this report.

Costs of Environmental Compliance. The Company's operations are subject to various environmental statutes and regulations, including laws and regulations addressing materials used in the manufacturing of the Company's products. In addition, certain of the Company's operations are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous wastes. Future expenditures may be necessary as compliance standards and technology change. Unforeseen significant expenditures required to maintain compliance, including unforeseen liabilities, could have an adverse effect on the Company's business and financial condition. See Item 1. — "Business — Government Regulation and Environmental Matters" in this report.

ITEM 7a. DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company had \$6.6 million in short-term investments at December 31, 1999. The short-term investments are highly liquid with original maturities of less than three months and are subject to interest-rate risk. The value of these investments would decline in the event of increases in market interest rates. The Company generally holds these investments until maturity thus avoiding the losses resulting from sudden changes in interest rates. Declines in interest rates would reduce the amount of the Company's interest income.

The Company borrows under its revolving credit facility from time to time for general corporate purposes, including working capital requirements and capital expenditures. Borrowings under the revolving credit facility bear interest at either the prime commercial rate or LIBOR plus 1.25% at the option of the Company. Therefore, the Company is also subject to fluctuations in interest rates as a result of the terms of this credit facility. At December 31, 1999, the Company had no borrowings under its revolving credit facility.

The Company has \$75.0 million of Senior Subordinated Notes due 2008 that bear a fixed interest rate of 9¼%. The fair value of the Company's 9¼% Notes is sensitive to changes in interest rates.

The Company has periodically entered into interest rate swap agreements in order to manage its exposure to interest rate changes. At December 31, 1999, the Company had no interest rate swaps.

Foreign Currency Exchange Rate Risk

The Company's revenues are primarily from domestic customers and are realized in U.S. dollars. Accordingly, the Company believes its direct foreign currency exchange rate risk is not material. In the past, the Company has hedged against foreign currency exchange rate fluctuations on specific sales or equipment purchasing contracts. At December 31, 1999 the Company had no currency hedges in place.

Commodity Price Risk

Copper is one of the primary raw materials used by its AmerCable division. The Company from time to time uses forward contracts as a hedge against changes in copper prices for specific contracts. At December 31, 1999, no raw material forward contracts were in place. See Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Certain Forward-Looking Statements — Changing Raw Material Costs and Availability” in this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ASSOCIATED MATERIALS INCORPORATED INDEX TO FINANCIAL STATEMENTS

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Statements of Stockholders' Equity for the years ended December 31, 1999, 1998 and 1997	21
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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Associated Materials Incorporated

We have audited the accompanying balance sheets of Associated Materials Incorporated as of December 31, 1999 and 1998 and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Associated Materials Incorporated at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Dallas, Texas
February 4, 2000

ASSOCIATED MATERIALS INCORPORATED
BALANCE SHEETS
(In Thousands, Except Share Data)

ASSETS

	December 31,	
	1999	1998
Current assets:		
Cash and cash equivalents	\$ 3,432	\$ 14,964
Accounts receivable, net of allowance for doubtful accounts of \$4,864 and \$4,159 at December 31, 1999 and 1998, respectively	52,583	45,756
Inventories	69,651	56,245
Income taxes receivable.....	226	-
Other current assets.....	<u>3,872</u>	<u>3,572</u>
Total current assets	129,764	120,537
Property, plant and equipment, net	71,682	61,130
Investment in Amercord Inc.	2,393	4,961
Other assets	<u>2,457</u>	<u>2,691</u>
Total assets.....	<u>\$206,296</u>	<u>\$189,319</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 16,933	\$ 11,713
Accrued liabilities	26,953	25,417
Income taxes payable.....	-	582
Current portion of long-term debt.....	<u>-</u>	<u>3,600</u>
Total current liabilities	43,886	41,312
Deferred income taxes	2,236	2,616
Other liabilities.....	5,848	6,013
Long-term debt	75,000	75,000
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares - 100,000 shares at December 31, 1999 and 1998		
Issued shares - 0 at December 31, 1999 and 1998.....	-	-
Common stock, \$.0025 par value:		
Authorized shares - 15,000,000 at December 31, 1999 and 1998		
Issued shares - 7,024,666 at December 31, 1999 and 6,938,747 at December 31, 1998	17	17
Common stock Class B, \$.0025 par value:		
Authorized and issued shares - 1,550,000 at December 31, 1999 and December 31, 1998	4	4
Less: Treasury stock, at cost - 555,396 shares at December 31, 1999 and 88,396 at December 31, 1998	(6,626)	(1,048)
Capital in excess of par	13,154	12,273
Retained earnings.....	<u>72,777</u>	<u>53,132</u>
Total stockholders' equity	<u>79,326</u>	<u>64,378</u>
Total liabilities and stockholders' equity.....	<u>\$206,296</u>	<u>\$189,319</u>

See accompanying notes.

ASSOCIATED MATERIALS INCORPORATED
STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Year Ended December 31,		
	1999	1998	1997
Net sales	\$452,586	\$407,933	\$397,690
Cost of sales	<u>314,914</u>	<u>283,644</u>	<u>283,514</u>
	137,672	124,289	114,176
Selling, general and administrative	96,028	88,727	81,142
Other income, net.....	<u>—</u>	<u>2,673</u>	<u>—</u>
Income from operations	41,644	38,235	33,034
Interest expense.....	<u>6,779</u>	<u>7,565</u>	<u>9,795</u>
	34,865	30,670	23,239
Equity in loss of Amercord Inc.	1,337	1,881	626
Writedown of investment in Amercord Inc.	<u>—</u>	<u>4,351</u>	<u>—</u>
Income before income tax and extraordinary item.....	33,528	24,438	22,613
Income tax expense.....	<u>13,038</u>	<u>11,382</u>	<u>9,524</u>
Income before extraordinary item.....	20,490	13,056	13,089
Extraordinary loss from retirement of debt, net of income taxes.....	<u>—</u>	<u>4,107</u>	<u>—</u>
Net income	<u>\$ 20,490</u>	<u>\$ 8,949</u>	<u>\$ 13,089</u>
<i>Earnings Per Common Share – Basic:</i>			
Income before extraordinary item.....	\$ 2.52	\$ 1.58	\$ 1.72
Extraordinary loss from retirement of debt.....	<u>—</u>	<u>(0.50)</u>	<u>—</u>
Net income	<u>\$ 2.52</u>	<u>\$ 1.08</u>	<u>\$ 1.72</u>
<i>Earnings Per Common Share – Assuming Dilution:</i>			
Income before extraordinary item.....	\$ 2.46	\$ 1.55	\$ 1.69
Extraordinary loss from retirement of debt.....	<u>—</u>	<u>(0.49)</u>	<u>—</u>
Net income	<u>\$ 2.46</u>	<u>\$ 1.06</u>	<u>\$ 1.69</u>

See accompanying notes.

ASSOCIATED MATERIALS INCORPORATED
STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)

	<u>Common Stock</u>		<u>Class B Common Stock</u>		<u>Treasury Stock</u>		<u>Capital In</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Excess of Par</u>	<u>Earnings</u>	<u>Stockholders' Equity</u>
Balance at December 31, 1996.....	4,894	\$ 12	2,700	\$ 7	—	\$ —	\$ 185	\$32,042	\$32,246
Net income and total comprehensive income.....	—	—	—	—	—	—	—	13,089	13,089
Cash dividends (\$0.05 per share)	—	—	—	—	—	—	—	(379)	(379)
Exercise of Common Stock options and related tax benefits	41	—	—	—	—	—	320	—	320
Purchase of treasury shares	—	—	—	—	41	(542)	—	—	(542)
Balance at December 31, 1997.....	4,935	12	2,700	7	41	(542)	505	44,752	44,734
Net income and total comprehensive income.....	—	—	—	—	—	—	—	8,949	8,949
Cash dividends (\$0.075 per share) ...	—	—	—	—	—	—	—	(569)	(569)
Exercise of Common Stock options and related tax benefits	10	—	—	—	—	—	60	—	60
Purchase of treasury shares.....	—	—	—	—	47	(506)	—	—	(506)
Common Stock issued	809	2	—	—	—	—	11,483	—	11,485
Common Stock issued under Employee Stock Purchase Plan	35	—	—	—	—	—	225	—	225
Conversion of Class B Common Stock to Common Stock	1,150	3	(1,150)	(3)	—	—	—	—	—
Balance at December 31, 1998.....	6,939	17	1,550	4	88	(1,048)	12,273	53,132	64,378
Net income and total comprehensive income.....	—	—	—	—	—	—	—	20,490	20,490
Cash dividends (\$0.10 per share)	—	—	—	—	—	—	—	(845)	(845)
Exercise of Common Stock options and related tax benefits	5	—	—	—	—	—	30	—	30
Purchase of treasury shares.....	—	—	—	—	467	(5,578)	—	—	(5,578)
Common Stock issued under Employee Stock Purchase Plan	81	—	—	—	—	—	851	—	851
Balance at December 31, 1999.....	<u>7,025</u>	<u>\$ 17</u>	<u>1,550</u>	<u>\$ 4</u>	<u>555</u>	<u>\$(6,626)</u>	<u>\$13,154</u>	<u>\$72,777</u>	<u>\$79,326</u>

See accompanying notes.

ASSOCIATED MATERIALS INCORPORATED
STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31,		
	1999	1998	1997
Operating Activities			
Net income	\$ 20,490	\$ 8,949	\$ 13,089
Adjustments to reconcile net income to net cash used by operating activities:			
Depreciation and amortization.....	8,519	7,217	6,521
Deferred income taxes	(380)	665	67
Provision for losses on accounts receivable	2,323	3,500	3,500
Equity in loss of Amercord Inc.	1,337	1,881	626
Writedown of investment in Amercord Inc.	-	4,351	-
Loss (gain) on sale of assets	51	30	(348)
Extraordinary loss on retirement of debt, net of income taxes.....	-	4,107	-
Other income, net	-	(2,673)	-
Changes in operating assets and liabilities:			
Accounts receivable	(9,150)	(59)	(5,489)
Inventories.....	(13,406)	376	1,736
Other current assets	(300)	(281)	(266)
Bank overdrafts.....	-	(4,769)	(84)
Accounts payable	5,220	(3,370)	(2,031)
Accrued liabilities.....	1,536	3,415	4,988
Income taxes receivable/ payable.....	(808)	3,726	480
Other assets	(38)	66	96
Other liabilities	(165)	(363)	(389)
Net cash provided by operating activities	15,229	26,768	22,496
Investing Activities			
Additions to property, plant and equipment	(18,915)	(14,261)	(8,758)
Proceeds from sale of assets	65	49	817
Proceeds from sale of Amercord interest	1,231	-	-
Investment in Amercord Inc.	-	(500)	-
Net cash used in investing activities.....	(17,619)	(14,712)	(7,941)
Financing Activities			
Proceeds from issuance of long-term debt.....	-	75,000	-
Net proceeds from issuance of common stock	851	11,710	-
Net decrease in revolving line of credit.....	-	(564)	(12,494)
Principal payments of long-term debt.....	(3,600)	(1,750)	(1,750)
Principal payments of 11½% Senior Subordinated Notes	-	(75,000)	-
Prepayment premium on early retirement of debt	-	(4,899)	-
Debt issuance costs.....	-	(2,509)	-
Dividends paid	(845)	(569)	(379)
Treasury stock acquired	(5,578)	(506)	(542)
Options exercised	30	60	161
Net cash provided by (used in) financing activities	(9,142)	973	(15,004)
Net increase (decrease) in cash.....	(11,532)	13,029	(449)
Cash at beginning of period.....	14,964	1,935	2,384
Cash at end of period.....	<u>\$ 3,432</u>	<u>\$ 14,964</u>	<u>\$ 1,935</u>
Supplemental Information:			
Cash paid for interest.....	<u>\$ 7,108</u>	<u>\$ 8,924</u>	<u>\$ 10,110</u>
Cash paid for income taxes	<u>\$ 14,313</u>	<u>\$ 8,259</u>	<u>\$ 9,098</u>

See accompanying notes.

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS

1. Accounting Policies

Line of Business

Associated Materials Incorporated (the "Company") consists of two operating divisions, Alside and AmerCable. Alside is engaged principally in the manufacture and distribution of exterior residential building products to professional contractors throughout the United States. AmerCable manufactures jacketed electrical cable utilized in a variety of industrial applications. The Company also owns an interest in Amercord Inc. ("Amercord"), which was accounted for using the equity method until November 1999 when Amercord was recapitalized, reducing the Company's interest in Amercord from 50% to 9.9%. Since the recapitalization, the Company has accounted for Amercord under the cost method. Amercord manufactures and sells steel tire cord and tire bead wire used in the tire manufacturing industry.

Accounting Changes

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which is effective for fiscal years beginning after June 15, 1999. The Statement establishes accounting and reporting standards for derivative instruments and requires that a company recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Deferral of the Effective Date of FASB Statement 133" which defers the implementation of Statement 133 for one year. The Company believes these statements will not have a material effect on the Company's financial position, results of operations or cash flows.

Revenue Recognition

Product sales are recognized at the time of shipment and when payment is reasonably certain.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years.

Income Tax

Income taxes have been provided using the liability method in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Derivatives

From time to time the Company hedges its position with respect to raw material or currency fluctuations on specific contracts by entering into forward contracts or purchase options, the cost of which are realized upon the completion of the contract. No such contracts were in place at December 31, 1999.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

Advertising

The Company expenses advertising costs as incurred. Advertising expense was \$8.5 million, \$8.7 million and \$8.0 million in 1999, 1998 and 1997, respectively.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

2. Investment in Amercord

The Company owns an interest in Amercord, a manufacturer of steel tire cord and tire bead wire used in the tire manufacturing industry. The Company recorded equity in the losses of Amercord of \$1.3 million, \$1.9 million and \$0.6 million in 1999, 1998 and 1997, respectively.

During 1998, the Company announced its intention to sell its 50% interest in Amercord. The Company recorded a pretax write-down of \$4,351,000 (\$0.38 per share after tax) on its investment in Amercord in anticipation of a loss on the sale of Amercord.

During the fourth quarter of 1999, Amercord was recapitalized, reducing the Company's interest in Amercord from 50% to 9.9%. As a result of the recapitalization, the Company received cash of \$1.2 million (net of related expenses) and a subordinated note for \$1.5 million due November 2004. In addition, the Company has the right to require Amercord to purchase the Company's remaining 9.9% interest for \$2.0 million in November 2003. The Company currently accounts for Amercord using the cost method of accounting. Prior to Amercord's recapitalization, the Company accounted for Amercord using the equity method of accounting.

The Company has guaranteed a \$3.0 million note secured by Amercord's real property. Should the guarantee be exercised by Amercord's lender, the Company and Ivaco Inc. ("Ivaco") have the option to assume the loan. Ivaco has indemnified the Company for 50% of any loss under the guarantee.

The fair value of the \$1.5 million note and the 9.9% equity ownership (taking into consideration the \$2.0 million put option) at December 31, 1999 was \$1.2 million and \$1.1 million, respectively. These amounts are included in Investment in Amercord Inc. in the accompanying balance sheets.

3. Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts on accounts receivable for the years ended December 31 consist of (in thousands):

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Balance at beginning of period	\$ 4,159	\$ 4,423	\$ 3,749
Provision for losses.....	2,323	3,500	3,500
Losses sustained (net of recoveries)	1,618	3,764	2,826
Balance at end of period	<u>\$ 4,864</u>	<u>\$ 4,159</u>	<u>\$ 4,423</u>

4. Inventories

Inventories at December 31 consist of (in thousands):

	<u>1999</u>	<u>1998</u>
Raw materials.....	\$ 20,043	\$ 16,422
Work-in-progress	5,937	4,728
Finished goods and purchased stock	43,671	35,095
	<u>\$ 69,651</u>	<u>\$ 56,245</u>

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

5. Property, Plant and Equipment

Property, plant and equipment at December 31 consist of (in thousands):

	<u>1999</u>	<u>1998</u>
Land	\$ 1,939	\$ 1,369
Buildings	30,472	24,221
Construction in process	3,281	5,210
Machinery and equipment	<u>98,106</u>	<u>84,474</u>
	133,798	115,274
Less accumulated depreciation	<u>62,116</u>	<u>54,144</u>
	<u>\$ 71,682</u>	<u>\$ 61,130</u>

6. Accrued Liabilities and Other Liabilities

Accrued liabilities at December 31 consist of (in thousands):

	<u>1999</u>	<u>1998</u>
Employee compensation	\$ 11,419	\$ 10,258
Sales promotions and incentives	4,635	4,293
Employee benefits	4,054	4,191
Interest	2,326	2,326
Other	<u>4,519</u>	<u>4,349</u>
	<u>\$ 26,953</u>	<u>\$ 25,417</u>

Other liabilities of \$5,848,000 at December 31, 1999 consist primarily of accruals for retiree medical benefits related to the 1989 closure of the Company's metal plant. In 1998, the Company accrued an additional \$3,278,000 for retiree medical benefits based upon an actuarial study taking into account unfavorable claims experience.

7. Revolving Credit Arrangements

In May 1999, the Company amended its \$50 million credit agreement with KeyBank, N.A. ("Credit Agreement") to extend the term to May 31, 2002. Available borrowings under the Credit Agreement are limited to the lesser of the total facility less unused letters of credit or availability based on percentages of eligible accounts receivable and inventories. Unused letters of credit totaled \$1,645,000 at December 31, 1999, primarily related to insurance. The Company's available borrowing capacity at December 31, 1999 was approximately \$48,355,000. The Credit Agreement includes covenants that require the maintenance of certain financial ratios and net worth and that place restrictions on the repurchase of common stock and the payment of dividends. Outstanding borrowings under the Credit Agreement are secured by substantially all of the assets of the Company other than the Company's real property, equipment and its interest in Amercord.

Interest is payable on borrowings under the revolving credit facility at either the prime commercial rate (8.50% at December 31, 1999) or LIBOR plus 1.25% at the option of the Company and on the unused credit facility at a rate of .25%. Letter of credit fees of 1.25% are paid at origination.

The weighted average interest rate for borrowings under the revolving credit facility was 7.75% and 8.15% for December 31, 1999 and 1998, respectively.

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

8. Long-Term Debt

Long-term debt at December 31 consists of (in thousands):

	<u>1999</u>	<u>1998</u>
Taxable Variable Rate Demand Notes	\$ —	\$ 3,600
9¼% Senior Subordinated Notes due 2008	<u>75,000</u>	<u>75,000</u>
	75,000	78,600
Less amounts due in one year	<u>—</u>	<u>3,600</u>
	<u>\$ 75,000</u>	<u>\$ 75,000</u>

In March 1998, the Company purchased \$72,900,000 of its outstanding 11½% Senior Subordinated Notes due August 15, 2003 ("11½% Notes") through a tender offer and consent solicitation. As a result of this transaction, the Company incurred an extraordinary charge of \$4,054,000, net of income taxes of \$2,841,000, resulting from the premium paid in connection with the purchase of the 11½% Notes and the write-off of debt issuance costs associated with the 11½% Notes.

Simultaneously with the consummation of the tender offer, the Company issued \$75,000,000 of 9¼% Senior Subordinated Notes due March 1, 2008 (the "9¼% Notes") with interest payable semi-annually on March 1 and September 1 commencing September 1, 1998. The 9¼% Notes are senior subordinated unsecured obligations of the Company and are subordinated in right of payment to all existing and future "Senior Indebtedness" of the Company (as that term is defined in the indenture pursuant to which the 9¼% Notes were issued (the "9¼% Note Indenture")).

The 9¼% Notes are redeemable at the Company's option, in whole or in part, at any time on or after March 1, 2003, at redemption prices ranging from 104.625% commencing on March 1, 2003 and reducing to 100% on March 1, 2006 and thereafter. The 9¼% Note Indenture includes certain covenants that limit the Company's ability to incur additional indebtedness, pay dividends and make other restrictive payments, consummate certain transactions and other matters similar to those which existed under the indenture pursuant to which the 11½% Notes were issued (the "11½% Note Indenture").

On August 17, 1998, the Company redeemed the \$2,100,000 principal amount of 11½% Notes that remained outstanding after the tender offer. As a result of this transaction, the Company incurred an extraordinary charge of approximately \$53,000, net of income taxes of \$37,000, resulting from the premium paid in connection with the redemption.

The fair value of the 9¼% Notes at December 31, 1999 was \$74,190,000 based upon quoted market price.

9. Commitments

Commitments for future minimum lease payments under noncancelable operating leases, principally for manufacturing and distribution facilities and certain equipment, are approximately \$10,235,000, \$7,736,000, \$6,454,000, \$4,745,000, \$3,134,000 and \$3,432,000 for the years ending December 31, 2000, 2001, 2002, 2003, 2004 and thereafter, respectively. Lease expense was approximately \$13,141,000, \$12,171,000 and \$10,901,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

10. Income Taxes

Income tax expense for the years ended December 31 consists of (in thousands):

	<u>1999</u>		<u>1998</u>		<u>1997</u>	
	<u>Current</u>	<u>Deferred</u>	<u>Current</u>	<u>Deferred</u>	<u>Current</u>	<u>Deferred</u>
Federal income taxes	\$ 11,776	\$ (364)	\$ 6,366	\$ 542	\$ 7,816	\$ 55
State income taxes	<u>1,642</u>	<u>(16)</u>	<u>1,473</u>	<u>123</u>	<u>1,641</u>	<u>12</u>
	<u>\$ 13,418</u>	<u>\$ (380)</u>	<u>\$ 7,839</u>	<u>\$ 665</u>	<u>\$ 9,457</u>	<u>\$ 67</u>

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income taxes as of December 31 are as follows (in thousands):

	<u>1999</u>	<u>1998</u>
Deferred tax assets:		
Medical benefits	\$ 2,252	\$ 2,722
Bad debt expense	1,052	474
Pension expense	305	869
Inventory costs	833	671
Capital loss on Amercord Inc.	3,564	—
Other	<u>782</u>	<u>1,455</u>
Total deferred tax assets	8,788	6,191
Deferred tax liabilities:		
Depreciation	10,507	8,627
Other	<u>517</u>	<u>180</u>
Total deferred tax liabilities	11,024	8,807
Net deferred tax liabilities	<u>\$ (2,236)</u>	<u>\$ (2,616)</u>

The reconciliation of the statutory rate to the Company's effective income tax rate for the years ended December 31 follows:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Statutory rate	35.0%	35.0%	35.0%
State income tax, net of federal income tax benefit	3.2	5.5	4.6
Equity in loss of Amercord	—	6.0	.8
Other	<u>0.7</u>	<u>1.2</u>	<u>1.7</u>
Effective rate	<u>38.9%</u>	<u>47.7%</u>	<u>42.1%</u>

11. Stockholders' Equity

In March 1998, the Company completed an initial public offering ("IPO") of 2,448,120 shares of common stock at an offering price to the public of \$16.00 per share. In the IPO, 808,520 shares were sold by the Company and 1,639,600 shares were sold by certain of the Company's stockholders. The offering resulted in an increase in stockholders' equity of \$11,485,000.

In connection with the IPO, 1,150,000 shares of Class B common stock were converted into 1,150,000 shares of common stock. The Class B common stock is convertible on a one-for-one basis into common stock at any time subject to legal restrictions, if any, applicable to the holder of these shares. The Class B common stock has the same rights and privileges extended to the common stock except that the holder of Class B common stock may vote only on matters pertaining to changes in the Certificate of Incorporation; the sale, lease, or disposition of certain assets; mergers or consolidations; or the liquidation or dissolution of the Company.

In October 1998 the Company's Board of Directors approved a stock repurchase program. Under this program, the Company has been authorized to purchase up to 800,000 shares of common stock in open market transactions depending on market, economic and other factors. During 1999 and 1998, the Company repurchased 467,000 and 47,000 shares of its common stock under the stock repurchase program at a cost of \$5,578,000 and \$506,000.

12. Earnings Per Share

Earnings per share for 1997 was calculated in accordance with the Securities and Exchange Commission ("Commission") Staff Accounting Bulletin, Topic 4D in anticipation of the Company's initial public offering in the first quarter of 1998. Topic 4D requires shares of common stock issued during the 12-month period prior to the initial public offering at prices below the public offering price be included in the calculation of diluted earnings per share as if they were outstanding for all periods presented.

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

The following table sets forth the computation of basic and diluted earnings per share:

	<u>Year Ended December 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(in thousands, except per share data)		
Numerator:			
Numerator for basic and diluted earnings per common share —			
income before extraordinary item	\$ 20,490	\$ 13,056	\$ 13,089
Denominator:			
Denominator for basic earnings per common share —			
weighted-average shares	8,126	8,260	7,594
Effect of dilutive securities:			
Employee stock options	<u>218</u>	<u>143</u>	<u>162</u>
Denominator for diluted earnings per common share —			
adjusted weighted-average shares	<u>8,344</u>	<u>8,403</u>	<u>7,756</u>
Basic earnings per common share before extraordinary item.....	<u>\$ 2.52</u>	<u>\$ 1.58</u>	<u>\$ 1.72</u>
Diluted earnings per common share before extraordinary item	<u>\$ 2.46</u>	<u>\$ 1.55</u>	<u>\$ 1.69</u>

Options to purchase 40,000 and 70,000 shares of common stock with a weighted average exercise price of \$16.00 and \$13.14 per share were outstanding for the years ended December 31, 1999 and December 31, 1998, respectively, but were excluded from the diluted earnings per share calculation because the option exercise price was greater than the average market price of the common stock during the period.

13. Stock Plans

The Company has a stock option plan, whereby it grants stock options to certain directors, officers and key employees. The Company has authorized 800,000 shares of common stock to be issued under the plan. No options were granted under the plan in 1999. The options granted in 1997 and 1998 were granted at fair market value on the grant date and are exercisable for ten years. Options vest by either of the following methods: one-half vests upon the grant date with the remainder vesting after two years or twenty-percent vests upon the grant date with an additional twenty percent vesting each year commencing on the first anniversary of the grant date. All outstanding options granted under the stock option plan are non-statutory stock options.

Transactions during 1997, 1998 and 1999 under this plan are summarized below:

	<u>Shares</u>	<u>Price</u>
Options outstanding at December 31, 1996	212,300	\$2.925 to \$5.00
Exercised.....	(40,500)	\$2.925 to \$5.00
Granted	140,000	\$12.00 to \$16.00
Expired or canceled	<u>(4,500)</u>	<u>\$5.00</u>
Options outstanding at December 31, 1997	307,300	\$2.925 to \$16.00
Exercised.....	(10,000)	\$2.925
Granted	<u>275,000</u>	<u>\$9.00</u>
Options outstanding at December 31, 1998	572,300	\$2.925 to \$16.00
Exercised.....	<u>(5,000)</u>	<u>\$2.925</u>
Options outstanding at December 31, 1999	567,300	\$2.925 to \$16.00

Options to purchase 407,800, 298,800 and 233,550 shares were exercisable at December 31, 1999, 1998 and 1997, respectively. The weighted average exercise price of options outstanding was \$8.50, \$8.45 and \$7.79 at December 31, 1999, 1998 and 1997, respectively.

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

The following table summarizes significant ranges of outstanding and exercisable options at December 31, 1999:

<u>Options Outstanding</u>			<u>Options Exercisable</u>	
<u>Shares</u>	<u>Weighted Average Remaining Life in Years</u>	<u>Exercise Price</u>	<u>Shares</u>	<u>Exercise Price</u>
121,800	3.67	\$ 2.925	121,800	\$ 2.925
30,500	5.41	\$ 5.000	30,500	\$ 5.000
275,000	8.66	\$ 9.000	115,500	\$ 9.000
100,000	7.17	\$12.000	100,000	\$12.000
40,000	7.42	\$16.000	40,000	\$16.000

The Company adopted the disclosure provisions of SFAS No. 123 in 1996 but continues to measure stock-based compensation in accordance with APB No. 25. Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that statement. The weighted average fair value at date of grant for options granted during 1998 and 1997 was \$7.53 and \$6.09 per option, respectively. In 1997 the fair value of the options was estimated at the date of the grant using the minimum value method option pricing model assuming dividend yields of 1.0%, a weighted-average expected life of an option of 10 years and a risk-free interest rate of 7.03%. In 1998 the fair value of the options was estimated at the date of the grant using the Black Scholes option pricing model with the following weighted-average assumptions for 1998: risk free interest rate of 5.45%, dividend yield of 1.0%, volatility factor of the expected market price of the stock of 1.00, and a weighted-average expected life of the option of 10 years.

Stock based compensation costs would have reduced net income by \$475,000, \$669,000 and \$389,000 or \$0.06, \$0.08 and \$0.05 per basic and diluted share in 1999, 1998 and 1997, respectively, if the fair values of the options granted in that year had been recognized as compensation expense on a straight-line basis over the vesting period of the grant. The pro forma effect on net income for 1999, 1998 and 1997 may not be representative of the pro forma effect on net income in future years.

Effective October 1, 1998 the Company established an Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to purchase the Company's common stock at 85% of the lower of the fair market value on the first day of the option period or the last day of the option period. The Company registered 250,000 shares of common stock for issuance under the ESPP. During 1999 and 1998, employees purchased 80,919 and 35,327 shares under the ESPP at average prices of \$10.52 and \$6.378 per share.

14. Business Segments

The Company has two reportable segments: building products and electrical cable products. The principal business activities of the building products segment are the manufacture of vinyl siding, vinyl windows and cabinets, and the wholesale distribution of these and other complementary building products principally to professional home remodeling and new construction contractors. The principal business activity of the electrical cable segment is the manufacture and sale of jacketed electrical cable.

The Company evaluates performance and allocates resources based on operating profit, which is net sales less operating expenses.

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

Comparative financial data by reportable segment for the years ended December 31 are as follows (in thousands):

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net sales:			
Building products.....	\$ 408,428	\$ 355,997	\$ 344,000
Electrical cable products	<u>44,158</u>	<u>51,936</u>	<u>53,690</u>
	<u>\$ 452,586</u>	<u>\$ 407,933</u>	<u>\$ 397,690</u>
Operating profits (losses):			
Building products.....	\$ 42,408	\$ 35,188	\$ 30,415
Electrical cable products	2,875	5,774	5,086
Corporate expense.....	<u>(3,639)</u>	<u>(2,727)</u>	<u>(2,467)</u>
	<u>\$ 41,644</u>	<u>\$ 38,235</u>	<u>\$ 33,034</u>
Identifiable assets:			
Building products.....	\$ 167,024	\$ 139,279	\$ 139,751
Electrical cable products	26,673	21,213	20,349
Corporate.....	<u>12,599</u>	<u>28,827</u>	<u>18,404</u>
	<u>\$ 206,296</u>	<u>\$ 189,319</u>	<u>\$ 178,504</u>
Depreciation and amortization:			
Building products.....	\$ 6,900	\$ 5,719	\$ 5,029
Electrical cable products	1,347	1,181	1,096
Corporate.....	<u>272</u>	<u>317</u>	<u>396</u>
	<u>\$ 8,519</u>	<u>\$ 7,217</u>	<u>\$ 6,521</u>
Net additions to property, plant and equipment:			
Building products.....	\$ 16,018	\$ 12,658	\$ 8,108
Electrical cable products	2,897	1,596	635
Corporate.....	<u>-</u>	<u>7</u>	<u>15</u>
	<u>\$ 18,915</u>	<u>\$ 14,261</u>	<u>\$ 8,758</u>

Identifiable assets by segment are those used in the Company's operations in each segment. Corporate assets are principally the Company's cash and cash equivalents and its investment in Amercord. The Company operates principally in the United States. Neither aggregate export sales nor sales to a single customer have accounted for 10% or more of consolidated net sales in any of the years presented.

15. Retirement Plans

The Company sponsors a defined benefit pension plan, The Premium Building Products Company Hourly Employees Pension Plan ("Premium Plan"), which covers approximately 250 participants. The Company froze the Alside defined benefit retirement plan ("Alside Plan") effective December 31, 1998 and replaced it with a defined contribution plan effective January 1, 1999. As a result of the plan freeze, the Company recorded a \$5,951,000 curtailment gain in 1998. Accrued pension liabilities are included in accrued liabilities in the accompanying balance sheets.

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

Information regarding the Company's defined benefit plans is as follows:

	1999		1998	
	Alside Plan	Premium Plan	Alside Plan	Premium Plan
Change in projected benefit obligation				
Projected benefit obligation at beginning of year.....	\$25,818,400	\$ 988,298	\$29,332,966	\$ 915,091
Service cost	—	38,144	1,477,380	37,718
Interest cost	1,845,841	68,168	2,033,577	62,459
Plan amendments	—	—	—	—
Curtailment.....	—	—	(6,810,534)	—
Actuarial (gain) loss	(360,718)	(91,910)	744,449	(16,665)
Benefits paid	<u>(980,536)</u>	<u>(12,545)</u>	<u>(959,438)</u>	<u>(10,305)</u>
Projected benefit obligation at end of year.....	<u>\$26,322,987</u>	<u>\$ 990,155</u>	<u>\$25,818,400</u>	<u>\$ 988,298</u>
Change in plan assets				
Fair value of assets at beginning of year	\$30,406,944	\$ 807,158	\$26,680,890	\$ 681,713
Actual return on plan assets.....	4,919,956	119,427	4,685,492	108,050
Employer contributions	—	4,100	—	27,700
Benefits paid	<u>(980,536)</u>	<u>(12,545)</u>	<u>(959,438)</u>	<u>(10,305)</u>
Fair value of assets at end of year	34,346,364	918,140	30,406,944	807,158
Funded status.....	8,023,377	(72,015)	4,588,544	(181,140)
Unrecognized:				
Transition (asset) obligation.....	—	28,402	—	35,503
Prior service costs	—	50,367	—	56,609
Cumulative net (gain) loss.....	<u>(8,638,631)</u>	<u>(226,527)</u>	<u>(6,212,198)</u>	<u>(87,484)</u>
Accrued pension cost	<u>\$ (615,254)</u>	<u>\$ (219,773)</u>	<u>\$ (1,623,654)</u>	<u>\$ (176,512)</u>
Key assumptions as of December 31				
Discount rate	7.50%	7.50%	7.00%	7.00%
Long-term rate of return on assets.....	9.00%	9.00%	9.00%	9.00%
Salary increases.....	N/A	N/A	N/A	N/A
Net periodic pension cost				
Service cost	\$ —	\$ 38,144	\$ 1,477,380	\$ 37,718
Interest cost	1,845,841	68,168	2,033,577	62,459
Expected return on assets	(2,688,695)	(72,294)	(2,356,027)	(62,323)
Amortization of unrecognized:				
Transition (asset) obligation.....	—	7,101	215,539	7,101
Prior service costs	—	6,242	25,520	6,242
Cumulative net (gain) loss.....	<u>(165,546)</u>	<u>—</u>	<u>(128,180)</u>	<u>—</u>
Net periodic pension cost	<u>\$ (1,008,400)</u>	<u>\$ 47,361</u>	<u>\$ 1,267,809</u>	<u>\$ 51,197</u>

The Company sponsors two defined contribution plans (the "401(k) Plans") intended to provide assistance in accumulating personal savings for retirement. The 401(k) Plans are qualified as a tax-exempt plan under Sections 401(a) and 401(k) of the Internal Revenue Code. The Alside 401(k) Plan covers all full-time, non-union employees of Alside and matches up to 4.0% of eligible compensation. For the year ended December 31, 1999 the Company's pre-tax contribution to the Alside 401(k) Plan was \$2,100,000. The AmerCable 401(k) Plan covers all full-time employees of AmerCable and

ASSOCIATED MATERIALS INCORPORATED
NOTES TO FINANCIAL STATEMENTS (Continued)

matches up to 3.5% of eligible compensation. For the years ended December 31, 1999, 1998 and 1997 the Company's pre-tax contributions to the AmerCable 401(k) Plan were \$215,000, \$201,000 and \$175,000, respectively.

16. Contingencies

The Company entered into a consent order dated August 25, 1992 with the United States Environmental Protection Agency pertaining to corrective action requirements associated with the use of hazardous waste storage facilities at its Akron, Ohio location. With the exception of a small container storage area, the use of these facilities was terminated prior to the acquisition of the facilities by the Company from USX Corporation (USX) in 1984. The Company believes that USX bears financial responsibility for substantially all of the direct costs of corrective action at these facilities under relevant contract terms and under statutory and common law. The effects of the past practices of these facilities are continuing to be investigated pursuant to the terms of the consent order and as a result the Company is unable to reasonably estimate a reliable range of the aggregate cost of corrective action at this time. To date, USX has reimbursed the Company for substantially all of the direct costs of corrective action at these facilities. The Company expects that USX will continue to reimburse the Company for substantially all of the direct costs of corrective action at these facilities. As a result, the Company believes that any material claims resulting from this proceeding will not have a material adverse effect on the Company.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item with respect to the Company's directors is set forth under the caption "Election of Directors" in the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders to be held on May 25, 2000 ("Proxy Statement"), to be filed with the Commission pursuant to Regulation 14A, which is incorporated herein by reference.

The information required by this item regarding executive officers is set forth in Item 1 of Part 1 of this report, and incorporated herein by reference.

Information required by this item regarding compliance with Section 16 of the Securities Exchange Act of 1934, as amended, by persons subject to this section is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," in the Proxy Statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the captions "Director Compensation," "Executive Officer Compensation," "Option/SAR Grants in 1999," and "Aggregated Option/SAR Exercises in 1999 and December 31, 1999 Option/SAR Values" in the Proxy Statement, to be filed with the Commission pursuant to Regulation 14A, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is set forth under the caption "Beneficial Ownership of Common Stock" in the Proxy Statement, to be filed with the Commission pursuant to Regulation 14A, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement, to be filed with the Commission pursuant to Registration 14A, which is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are included in this report.

(a)(1) FINANCIAL STATEMENTS

See Index to Financial Statements at Item 8 on page 17 of this report.

(a)(2) FINANCIAL STATEMENT SCHEDULES

All financial statement schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of schedules, or because the information required is included in the financial statements and notes thereto.

(b) REPORTS ON FORM 8-K

During the quarter ended December 31, 1999, the Company filed no Current Reports on Form 8-K.

(c) **EXHIBITS**

- 3.1 — Restated Certificate of Incorporation, as amended, of Associated Materials Incorporated (the "Company") (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Commission File No. 33-84110 (the "1994 Registration Statement")).
- 3.2 — Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the 1994 Registration Statement).
- 4.1 — Form of Indenture between the Company and U.S. Trust Company of Texas, N.A., as Trustee (the "9¼% Note Indenture") (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, Commission File No. 33-42067 (the "1997 Debt Registration Statement")).
- 4.2 — Form of Senior Subordinated Note under the 9¼% Note Indenture (incorporated by reference to Exhibit A to Exhibit 4.1 to the 1997 Debt Registration Statement).
- 4.3 — Registration Rights Agreement, dated as of August 19, 1993, among the Company, PruSupply Capital Assets, Inc. ("PruSupply"), W.W. Winspear, M.M. Winspear, D.J. Allan, M.G. Winspear, D.W. Winspear, R.L. Winspear, B.W. Meyer, The Principal/The Eppler, Guerin & Turner, Inc., Frank T. Lauinger, John Wallace and Bonnie B. Smith (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (the "1993 Form 10-K")).
- 4.4 — Stockholders' Agreement, dated as of August 19, 1993, among the Company, PruSupply, W.W. Winspear and M.M. Winspear (incorporated by reference to Exhibit 4.4 to the 1993 Form 10-K).
- 4.5 — Amendment to the Stockholders' Agreement, dated as of April 1, 1994, among the Company, PruSupply, W.W. Winspear and M.M. Winspear (incorporated by reference to Exhibit 4.5 to the 1994 Registration Statement).
- 4.6 — Second Amendment to the Stockholders' Agreement, dated as of July 1, 1994, among the Company, PruSupply, W.W. Winspear and M.M. Winspear (incorporated by reference to Exhibit 4.6 to the 1994 Registration Statement).
- 4.7 — Third Amendment to the Stockholders' Agreement, dated as of October 12, 1994, among the Company, Prudential and the Winspear Family Limited Partnership (incorporated by reference to Exhibit 4.15 to the 1994 Registration Statement).
- 4.8 — Assumption Agreement, effective as of July 29, 1994, by the Winspear Family Limited Partnership (incorporated by reference to Exhibit 4.7 to the 1994 Registration Statement).
- 4.9 — Assumption Agreement, effective as of September 30, 1994 by The Prudential Insurance Company of America ("Prudential") (incorporated by reference to Exhibit 4.14 to the 1994 Registration Statement).
- 10.1 — Agreement of Sale, dated as of January 30, 1984, between USX Corporation (formerly United States Steel Corporation) ("USX") and the Company (incorporated by reference to Exhibit 10.1 to the 1993 Registration Statement).
- 10.2 — Amendment Agreement, dated as of February 29, 1984, between USX and the Company (incorporated by reference to Exhibit 10.2 to the 1993 Registration Statement).
- 10.3 — Form of Indemnification Agreement between the Company and each of the Directors and executive officers of the Company (incorporated by reference to Exhibit 10.14 to the 1994 Registration Statement).
- 10.4* — Associated Materials Incorporated Amended and Restated 1994 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997).
- 10.5* — Letter Agreement, dated May 13, 1983, between Donald L. Kaufman and Company, as amended (incorporated by reference to Exhibit 10.4 to the 1994 Registration Statement).

- 10.6 — Second Amended and Restated Loan and Security Agreement, dated as of April 2, 1996, between the Company and KeyBank (the "Credit Agreement") (incorporated by reference to Exhibit 10.1 to the March 31, 1996 Form 10-Q).
- 10.7 — Third amendment to Second Amended and Restated Loan and Security Agreement and Waiver, dated May 21, 1999 between the Company and KeyBank relating to the Credit Agreement (incorporated by reference to Exhibit 10.1 to the June 30, 1999 Form 10-Q).
- 10.8 — Third Amended and Restated Note, dated April 2, 1996, from the Company to KeyBank relating to the Credit Agreement (incorporated by reference to Exhibit 10.1 to the March 31, 1996 Form 10-Q).
- 10.9* — Associated Materials Incorporated Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1998).
- 21.1 — List of Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the December 31, 1998 Form 10-K).
- 23.1 — Consent of Ernst & Young LLP.
- 24.1 — Power of Attorney of directors and certain executive officers of the Company.
- 27.1 — Financial Data Schedule.

*Constitutes a compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas on March 22, 2000.

ASSOCIATED MATERIALS INCORPORATED

By: /s/ ROBERT L. WINSPEAR
Robert L. Winspear
Chief Financial Officer,
Vice President, Secretary and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated:

<u>Signature</u>	<u>Title</u>
<u>WILLIAM W. WINSPEAR*</u> William W. Winspear	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
<u>/s/ ROBERT L. WINSPEAR</u> Robert L. Winspear	Chief Financial Officer, Vice President, Secretary and Treasurer (Principal Financial and Accounting Officer)
<u>Richard I. Galland</u>	Director
<u>JOHN T. GRAY*</u> John T. Gray	Director
<u>DONALD L. KAUFMAN*</u> Donald L. Kaufman	Director
<u>JAMES F. LEARY*</u> James F. Leary	Director
<u>ALAN B. LERNER*</u> Alan B. Lerner	Director
<u>A. A. MEITZ*</u> A.A. Meitz	Director

Robert L. Winspear, by signing his name hereto, signs and executes this document on behalf of each of the above-named officers and directors of Associated Materials Incorporated on the 22 day of March, 2000, pursuant to a power of attorney executed on behalf of each of these officers and directors, and contemporaneously filed hereunto with the Securities and Exchange Commission.

* By: /s/ ROBERT L. WINSPEAR
Robert L. Winspear
Attorney-in-Fact

DIRECTORS & EXECUTIVE OFFICERS

William W. Winspear
*Chairman of the Board
President and Chief Executive Officer of
Associated Materials Incorporated*

Donald L. Kaufman
*Chairman and Chief Executive Officer of Alside
and Vice President and Director of
Associated Materials Incorporated*

Michael Caporale, Jr.
President and Chief Operating Officer of Alside

Robert F. Hogan, Jr.
*President and Chief Executive Officer of AmerCable and
Vice President of Associated Materials Incorporated*

Robert L. Winspear
*Vice President and Chief Financial Officer of Associated
Materials Incorporated*

Richard I. Galland
Director

John T. Gray
Director

James F. Leary
Director

Alan B. Lerner
Director

A.A. Meitz
Director

CORPORATE INFORMATION

Annual Meeting

The annual meeting of stockholders will be held Thursday, May 25, 2000 at 2:00 p.m. The meeting will take place at:

Chase Tower
39th Floor, Tyler Room
2200 Ross Avenue
Dallas, TX 75201

Transfer Agent

ChaseMellon Shareholder Services
85 Challenger Road
Overpeck Center
Ridgefield Park, NJ 07660
Telephone (800) 635-9270

Communications regarding stock transfer requirements, change of address or lost certificates should be addressed to the Company's stock transfer agent.

Exchange: NASDAQ

Symbol: SIDE

Corporate Offices

Associated Materials Incorporated
2200 Ross Avenue, Suite 4100-East
Dallas, TX 75201
Telephone (214) 220-4600

Independent Auditors

Ernst & Young LLP
Dallas, TX



Associated Materials Incorporated
2200 Ross Avenue, Suite 4100-East, Dallas, Texas 75201

