Remodeling Futures Conference

Effects of Financing in the Home Improvement Industry
CREDIT CONDITIONS IN TEXAS

- Historically low credit scores in Texas.
- In the 80’s, my business was as a Licensee for Sears for Siding and Windows.
- Sears financed most of customers, 30% through our Secured Lending.
- Homestead Law prevented homeowners from borrowing against home except for home improvements, divorce or tax lien.
- Over half free and clear, Reject Rate very low.
- Passage of Home Equity Law in 1997 substantially reduced this number over next five years.
Statewide Original Business Model

- Strategic Alliances with Sam’s Club and Home Depot for Sunrooms and Patio Cover sales

- In 2007 Statewide net sales were $27 Million, 8% EBITDA

- Product mix was 47% Sunrooms, 53% windows, siding and patio covers

- Average Net Sunroom contract $18,000, reject contract $22,000, reject rate 19% of contracts, 27% of $volume

- Balance of sales average contract, both net and reject, was $10,500, reject rate 12%
Statewide Today

- Baths, Kitchens added to Strategic Alliances in 2009
- Latest 12 month period had $27 million in sales, 3% EBITDA
- Product mix 12% Sunrooms, 34% windows, siding and patio covers, 8% Energy Products and 46% baths, kitchens and walk in tubs
- Sunroom average net contract $14,200, reject contract $22,000, reject rate 30% of contracts, 47% of dollar volume
- Balance of sales average net contract $10,000, reject $13,000, reject rate 18% of contracts, 26% of dollar volume
### SWR SALES “THEN AND NOW”

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>Last 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunrooms</td>
<td>12,716,009</td>
<td>3,307,375</td>
</tr>
<tr>
<td>Windows, Siding &amp; PC</td>
<td>14,242,777</td>
<td>9,152,961</td>
</tr>
<tr>
<td>Baths, Kitchens, W-in Tubs</td>
<td>-</td>
<td>12,621,449</td>
</tr>
<tr>
<td>Energy Products</td>
<td>-</td>
<td>2,098,066</td>
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</tbody>
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RECAP

- Homeowners now tend to only buy what they can pay cash for.
- Have seen a dramatic shift in cash business, from approximately 30% in 2007 to 50% today.
- In most current period 68% of window contracts paid cash.
- Jobs over $20,000 difficult to get financed, Low Credit Scores, Low Equity, Reduced Home Values.
- Average job amount continues to decrease, selling partials and lower priced average sale products, processing of more jobs for same volume.
ECONOMIC IMPLICATIONS

- Have shifted business from high priced patio products to more need products, lower average sales price

- Increased overhead by needing more production staff for job oversight.

- Lengthened job installation period has hurt cash flow—ex. Baths VS windows & sunrooms

- Competitive Market Place has seen shift to lower priced window product

- Lower gross margin on Kitchens and Baths than Windows and Sunrooms, higher production costs have squeezed margins