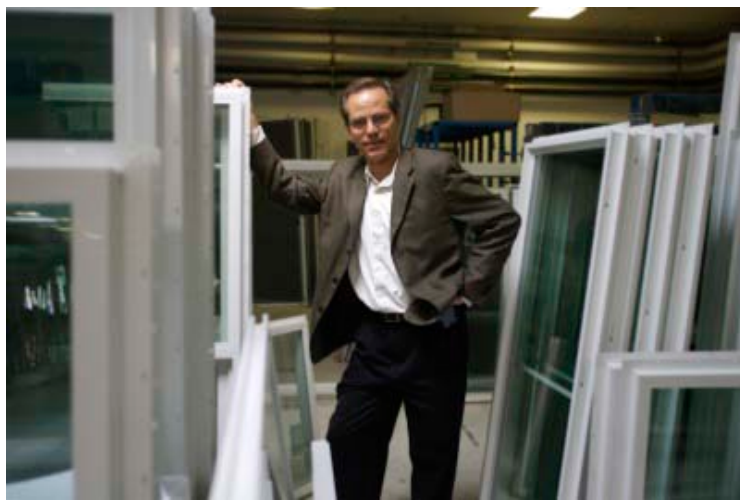


# A Seriously Different Window Manufacturer

*Looking to push the envelope on performance, a committed CEO has emerged as the new face of the industry*

Christina Lewellen June 3, 2009

Two years ago, not many people in the industry had even heard the name Serious Materials. Today, everybody's talking about the company. Even President Barack Obama.



*Kevin Surace, CEO of Serious Materials, doesn't view his company as competing on the window and door demand curve—he sees it moving with the green building curve.*

green-collar jobs at the hands of a resurgence in American innovation. The poster child is Serious Materials, led by its outspoken and energetic leader, CEO Kevin Surace.

In March, when President Obama gathered 120 clean energy entrepreneurs and researchers, a Serious Materials board member was seated at the table. The President highlighted Serious' re-opening of the former Kensington Windows plant in Pennsylvania and the fact that it is "whirring back to life" with workers who "have a new vision."

Surace has become the national media's spokesperson of choice for stories regarding the development of green jobs in the manufacturing sector and the importance of energy efficient building products in reducing the nation's energy dependence. A company, and a man, virtually unknown in the window and door industry just a short time ago has suddenly become its unofficial spokesperson, leaving many veterans wondering who he is, what his company stands for and just how high he expects to push the bar (a hint: He thinks the new 30/30 requirements are just the starting point.) "Dual-pane windows were patented in 1865," he says. "Not 1965, 1865. I'm thinking sometime between 1865 and today, we should do a little better than that."

Earlier this year, workers at the former Republic Windows & Doors plant in Chicago thrust the industry into the spotlight by demanding severance money owed to them when the company swiftly closed its doors. The laid-off Republic production worker became the poster child for American manufacturing—a victim of an overleveraged manufacturer plagued by a weakening economy.

Then, just a few short weeks later, another poster child emerged. One that represented much of what the new Obama administration had been preaching on the campaign trail—

That's exactly what Serious Materials is committed to doing—making better-performing windows. And not by just a little bit. Surace throws around did-I-hear-you-right numbers like R-11 and contends that his company's products are on the demand curve for green building and saving energy rather than residential and commercial construction.

For window manufacturers made uncomfortable by Surace's public declarations regarding window and door technology and where it should go in the future, he assures them that Serious Materials will be playing in a different sandbox. "The old-line manufacturers are doing what they see as right to protect their business and their profit margin. That's okay. I don't play in their space. They're great products—you won't hear me say they're not great—for what they do. We happen to do something different."

### **FROM WHENCE CAME YOU?**

Before busting onto the window and door scene, Serious Materials was probably best known for its environmentally-friendly sheet rock product, called, appropriately enough, Eco-Rock. A former Silicon Valley dot-commer, Surace was familiar with the cyclical nature of investments in industries. He watched as the money flowed in and out of semiconductors, networking, consumer software and then the Internet. "I was in technology for 20 years, running companies. In 2002, I felt that software had run its course, and even the Internet was now going into a phase where a lot of the new, big plays had been made—things like Amazon, Google and e-Bay."

So with training as an engineer and his experience with technology and innovation curves, Surace began looking for an industry in which big investments, and thus big leaps in innovation, had been largely absent for some time. "We had an interesting insight that material science had been underinvested since the 1970s, largely because we [as a society] were putting so much money into networking," he explains. "When venture capital leaves a field, innovation tends to dwindle."

Surace's research led him to the opinion that the construction industry in particular had been void of significant advancements in materials science for some time. "I would be competing against companies without true R&D," he explains. "Sure, they had some R&D to develop a nicer [window] frame, but not the kind of material science where you're digging into the molecules."

With a dedication to up-ending the traditional approach to new product development and thanks to the backing of a venture capitalist firm, Foundation Capital of Menlo Park, Calif., Serious Materials started carving out its name with the EcoRock product, which uses 80 percent less energy to produce than gypsum drywall, according to the company. Because it is naturally cured and dried, EcoRock eliminates the energy-intensive, high-CO<sub>2</sub> generating calcining and oven-drying found in gypsum drywall production. The product is made of 80 percent recycled materials, the supplier says, including post-industrial recycled waste, including waste from steel and cement plants—with no gypsum.

As it gained traction in the sheetrock realm, the company quietly entered the window business in 2005. Surace and his team purchased a Stockton, Calif., company, Vision Plus, which was

making noise attenuation products for airports and multifamily housing. “It’s a wonderful business, but just not a big enough market for most of the big guys.”

Somewhere around 2005, Surace says the company had its “ah ha!” moment to focus on climate change and energy savings in the building products realm. “After [Al] Gore’s movie hit, we realized the awareness was now wide enough.”

Serious Materials turned its attention to Alpen Windows, a Colorado manufacturer that had spent its 20-year history making super high-performance windows and insulating glass. The company was using Heat Mirror technology, a low-E coated film product suspended inside an insulating glass unit. The result, says Alpen’s Web site, is a “triple unit with two airspaces without the weight of triple insulating glass and with far superior insulating and shading performance.”

Heat Mirror rolled out in the '80s as a promising window component with early industry praise, but ran into push-back from many manufacturers for the extra steps it requires in the production process. Surace says the perceived hiccups don’t register with Serious Materials. “In comparison to a mass-produced, dual-pane product, it’s a harder product to make,” he says. “But if you set up a line and train people and automate it in the right ways, you can do it. Is it difficult? Are there more steps? Yes. But can it be done? Of course it can.”

Besides throwing his weight behind a technology shunned by many industry veterans, Surace also started raising eyebrows for bucking the use of U-value language in favor of what he views as clearer R-value speak. “U-value is confusing to the consumer,” he contends. “All of them are close to zero. The insulation industry talks R-value because R-20 is different than R-1, and consumers get that. The world talks R-values.”

With Alpen Windows and its expertise in high R-value windows and glass in the Serious Materials family, the company started making a name for itself with pursuers of LEED certification. “About 70 percent of our business is commercial,” he says. “Most of our customers are building LEED. About 15 percent of all commercial structures will be LEED this year. The higher R-value window, the better.”

The company is also seeing its residential business expand, particularly as the LEED for Homes program grows. “We certainly see demand in LEED Homes,” he says. “By far, it’s the leading method of home ratings. Yes, there are [others], but they’re easy-to-meet standards. LEED is very heavy into energy savings.”

With LEED driving most of Serious Materials’ commercial and residential window business, the company recently went on a buying spree to expand its capacity, both for what it needs now and what the leadership expects to need in the near future. At the start of the year, the company purchased the former Kensington Windows plant in the Pittsburgh, Pa., region and, amidst national attention over workers’ severance rights, the former Republic Windows & Doors plant in Chicago. “We needed capacity on the East Coast and in the Midwest,” Surace explains. “We were already shipping windows out there and we were sold out of Colorado. We needed more capacity.”

## THE RE-OPENINGS

The perfect storm was brewing in the industry and the economy in general when Serious Materials emerged as the lone lifeboat—in the eyes of the national media anyway. Early this year, Republic Windows employees kicked up enough dust when company officials shut down without warning to get in the eyes of the national media and become examples of wronged manufacturing workers across the country. President Obama took office after spending two years on the campaign trail promoting green-collar jobs, and the first quarter of this year saw new unemployment claims skyrocketing at an alarming rate. With all these conditions, it's not surprising that Surace and his team at Serious Materials started showing up on nationally-televised news programs and in articles peppered all over the Internet. "The media is looking for good stories and we have a wonderful story to tell," he says. "We have a differentiated set of products that hits home with the current administration. Saving American jobs, energy savings, climate change—we're hitting several major tenants of this administration and the country right now."



*Pennsylvania Governor Edward Rendell (left) joined Surace for a ribbon-cutting ceremony in March to re-open the former Kensington Windows plant in Vandergrift, Pa. Re-hired workers and members of the media looked on.*

Serious Materials re-opened the Kensington plant in March and hired back some of the workers displaced by the closure. Company officials expect to hire more back with each passing week as demand grows, perhaps as many as 120 positions when the site builds back up to capacity. The company got production lines rolling again with existing equipment but expects to re-tool and re-train employees in time to make the super high-efficiency Serious Window. Similar plans are in the works for the Republic site.

Making big purchases and upgrade investments in the current economic environment may seem risky to some, but Surace argues that he plays in a different field than traditional window and door manufacturers. "It's not a window and door industry, it's a commodity industry," he says. "They might as well be making rocks. Once you commoditize yourself, you're going to simply ride market waves. If you've got 8 percent of the window market in this country, when the market goes down, you go down too. I happen to be on a curve for green building and saving energy. It has nothing to do with home building. When you have a unique product and salespeople, all of a sudden you're not riding that commodity wave."

Surace recognizes the very challenging environment window manufacturers face and reasserts that Serious Materials entering the market should have very little impact on existing fabricators. "There are people trying to build a passive[-energy] house and they're not going to other manufacturers for an R-2 window," he says. "I'm not taking business from anyone because it's not business they could have gotten. I'm respectful of other manufacturers. Arguably, half of the window plants in this country could close and that's incredibly sad. But we have an opportunity to make use of some of those sites."

Serious Windows, which the company has now established, along with Serious Glass, as the official brand name, is selling a specialized product to a targeted buyer, which requires a different kind of dealer too, Surace says. “We look for dealers with a world-class sales force that want to sell differentiated products,” he says. “They have to be good at selling something other than price and delivery. We think the dealers who sell price and delivery aren’t going to be selling a lot of our product.”

### **NEXT STEPS**

Not a man to shy away from sharing his opinion, Surace says he supports the 30/30 numbers in the stimulus bill (and would have pushed for even lower) and the ratcheting down of Energy Star (and thinks it should go lower in the future). “Energy Star should be at an R-10, period,” he contends. “This Energy Star phase one was simply to get Energy Star back in line with local building codes.”

He shares similar sentiments regarding the 30/30 tax credit. “Where does it say there’s a tax rebate and everyone should qualify? If I’m a car maker and all I make is SUVs, should my Hummer qualify for a tax rebate? I know it’s not a popular stand, but I think it should have been higher than that. You want a rebate? Pick [a window] that’s really going to make a difference.”

Regardless of where industry standards go for energy performance, Surace says he will continue to lead his company into the future with passion for pushing the envelope. “The CEO is responsible for setting the tone and the vision of the company, but once you set the vision, it becomes the employees’ passion,” he says. “We’re very excited about the opportunity we have and our employees are very passionate. We have to really impact a lot of buildings to save the world and address climate change, but we can, in fact, do that.”