MASCO CORP /DE/
Form 10-K
February 13, 2015

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014 **Commission File Number 1-5794**

MASCO CORPORATION

(Exact name of Registrant as Specified in its Charter)

Delaware	**38-1794485**
(State of Incorporation)	(I.R.S. Employer Identification No.)
21001 Van Born Road, Taylor, Michigan	**48180**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: 313-274-7400
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $1.00 par value	New York Stock Exchange, Inc.

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes þ No o

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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange

Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on June 30, 2014 (based on the closing sale price of $22.20 of the Registrant's Common Stock, as reported by the New York Stock Exchange on such date) was approximately $7,790,502,000.

Number of shares outstanding of the Registrant's Common Stock at January 31, 2015:

349,544,600 shares of Common Stock, par value $1.00 per share

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed for its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Masco Corporation
2014 Annual Report on Form 10-K

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PART I

Item 1. Business.

Masco Corporation manufactures, distributes and installs home improvement and building products, with an emphasis on brand-name consumer products and services holding leadership positions. We are among the largest manufacturers in North America of a number of home improvement and building products, including faucets, cabinets, architectural coatings and windows, and we are a leading provider of services that include the installation of insulation and other building products. We provide broad product offerings in a variety of styles and price points and distribute products through multiple channels, including directly to homebuilders and wholesale and retail channels. Approximately 81 percent of our 2014 sales were generated by our North American operations.

The market for home improvement and building products at retailers increased by approximately four percent during 2014, despite continued economic uncertainties and modest consumer spending. Housing starts increased approximately ten percent during 2014.

Throughout 2014, we continued the execution of our strategy to position the Company for future growth, focusing on three strategic pillars: leveraging opportunities across our businesses, driving the full potential of our core businesses and actively managing our portfolio. We achieved gains in each of these areas. First, we leveraged our product leadership positions by expanding our brands and introducing innovative new and improved products. We believe that we gained share in our North American plumbing business with our DELTA®, PEERLESS®, and BRIZO® brands, and internationally with our HANSGROHE® products. In addition to its strong position with the "do-it-yourself" consumer, our decorative architectural products businesses continued to focus on the professional segment with BEHRPRO® paint and KILZ® PRO-X product lines. BEHR® paint expanded its MARQUEE® product line from exterior paint to interior paint and continued to pursue international opportunities. Milgard Manufacturing, our manufacturer of windows in the western U.S., and our U.K. Window Group continued to gain share.

To help drive the full potential of our core businesses, the second pillar of our strategy, we adopted a leaner operating model. We are transforming our corporate structure to a center-led model. We believe this model will increase our business units' efficiencies and our overall effectiveness as an organization. This change will align our corporate structure to support our strategy to drive the full potential of our businesses. In addition, we continued reducing costs and implementing lean principles and production process improvements. Our Installation and Other Services segments saw progress toward its goals during 2014 through incremental new home construction activity, cost reductions from lean processes and leveraging our ERP system and supply chain savings. During 2014, we remained focused on improvements at our Cabinets and Related Products businesses, which continued to face challenges.

The third pillar of our strategy is to actively manage our portfolio. In September 2014, we announced a plan to spin off 100 percent of our Installation and Other Services businesses into an independent, publicly-traded company through a tax-free stock distribution to our shareholders. We believe that these businesses will be better positioned to operate as a separate company that will focus on growth by capitalizing on new home construction in the United States as well as further expanding into commercial and retrofit categories. The transaction is expected to be completed in mid-2015.

To further drive value creation for our shareholders, our Board of Directors approved the repurchase of an aggregate 50 million shares of our common stock and increased our dividend by 20 percent. During 2014, we repurchased 7 million shares (including 1.7 million shares repurchased in the first quarter of 2014 to offset the dilutive impact of long-term stock awards) of our common stock. At December 31, 2014, we had approximately $1.7 billion of cash, cash investments and short-term bank deposits.

We believe that the actions we took during 2014 help provide the foundation for us to enhance future shareholder value. We also believe that the spin-off of our Installation and Other Services businesses will allow us to pursue a more focused strategy of growth through the innovation and manufacturing of

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branded building products. We plan to continue to actively manage our portfolio, identify growth opportunities in key industries and produce new products that differentiate us in the marketplace. By continuing our disciplined execution of our strategy, we believe that we will increase shareholder value by enhancing our customer experience and improving our efficiencies.

Our Business Segments

We report our financial results in five business segments aggregated by similarity in products and services. The following table sets forth the contribution of our segments to net sales and operating profit (loss) for the three years ended December 31, 2014. Additional financial information concerning our operations by segment and by geographic regions, as well as general corporate expense, net, as of and for the three years ended December 31, 2014, is set forth in Note P to our consolidated financial statements included in Item 8 of this Report.

	(In Millions)		
	Net Sales (1)		
	2014	2013	2012
Cabinets and Related Products	$ 999	$ 1,014	$ 939
Plumbing Products	3,308	3,183	2,955
Installation and Other Services	1,515	1,412	1,209
Decorative Architectural Products	1,998	1,927	1,818
Other Specialty Products	701	637	574
Total	$ 8,521	$ 8,173	$ 7,495

	Operating Profit (Loss) (1)(2)(3)(4)		
	2014	2013	2012
Cabinets and Related Products	$ (62)	$ (10)	$ (89)
Plumbing Products	512	394	307
Installation and Other Services	58	37	(19)
Decorative Architectural Products	360	351	329
Other Specialty Products	47	35	(31)
Total	$ 915	$ 807	$ 497

(1) Amounts exclude discontinued operations.

(2) Operating profit (loss) is before general corporate expense, net, and gain on sale of fixed assets, net.

(3) Operating profit (loss) is before income of $9 million regarding the 2014 litigation settlement in the Decorative Architectural Products segment and before net charges of $77 million regarding the 2012 litigation settlement, primarily in the Installation and Other Services segment.

(4) Operating profit (loss) includes impairment charges for other intangible assets as follows: For 2012 Other Specialty Products $42 million.

All of our operating segments, except the Plumbing Products segment, normally experience stronger sales during the second and third calendar quarters, corresponding with the peak season for new home construction and repair and remodel activity.

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Cabinets and Related Products

In North America, we manufacture and sell value-priced, stock and semi-custom assembled cabinetry for kitchen, bath, storage, home office and home entertainment applications in a broad range of styles and price points to address consumer preferences. We have also expanded our product offerings in this segment to include the manufacture and sale of kitchen countertops, as well as an integrated bathroom vanity and countertop solution. In the United Kingdom, we manufacture and sell assembled and ready-to-assemble kitchen, bath, and storage cabinetry. Our KRAFTMAID® brand is sold primarily to dealers, home centers and mass merchants and our MERILLAT®, MOORES and QUALITY CABINETS brands are sold primarily to dealers and homebuilders for both home improvement and new home construction. Cabinet sales are significantly affected by levels of activity in both new home construction and retail consumer spending, particularly spending for major kitchen and bathroom renovation projects. A significant portion of our sales for home improvement are made through home center retailers.

Our Cabinets and Related Products segment was particularly affected by the economic downturn and decline in new home construction and repair and remodel activity. While improving, consumer spending for big ticket remodeling projects, including large kitchen and bath remodeling projects, continues to be below normal levels, which impacts our profitability. Although home construction is improving and is expected to continue to improve, the demand for new homes remains below the historic average and demand has increased for multi-family housing units, which are smaller than single-family housing units and require fewer cabinets for the kitchen and bathrooms. In addition, our initiatives to improve this segment, including rationalizing our businesses, closing plants and reducing headcount, have been complex, time-consuming and expensive. The consolidation of our North American cabinet businesses has involved the integration of multiple manufacturing processes and information technology platforms and continues to affect our operations. We continue to focus on our cost structure in this segment and improving cabinet production efficiencies. Although faced with challenges, we are continuing to pursue our strategy to increase sales in this segment through brand building, new product introductions aimed to provide differentiated products to our multiple sales channels, and product innovation.

The cabinet manufacturing industry in the United States and the United Kingdom includes several large competitors and numerous local and regional competitors. In recent years, we have experienced significant competition in the form of discounts and new product offerings by our competitors, which have impacted the segment's results of operations. We also face competition from foreign manufacturers. In addition to price, we believe that competition in this industry is based largely on product quality, responsiveness to customer needs, product features and selection. Our North American competitors include American Woodmark Corporation, Fortune Brands Home & Security, Inc. and Norcraft Companies, Inc.

The raw materials used in this segment are primarily hardwood lumber, plywood and particleboard, and are available from multiple sources, both domestic and foreign.

Plumbing Products

The businesses in our Plumbing Products segment sell a wide variety of faucet, bathing and showering devices that are manufactured by or for us. The majority of our plumbing products are sold in North America and Europe under the brand names DELTA®, PEERLESS®, HANSGROHE®, AXOR®, BRIZO®, BRASSTECH®, BRISTAN , GINGER®, HERITAGE , NEWPORT BRASS® and PLUMB SHOP®. Our products include single-handle and double-handle faucets, showerheads, handheld showers, valves, bathing units and toilets. These products are sold to major retail accounts and to wholesalers and distributors that, in turn, sell our products to plumbers, building contractors, remodelers, smaller retailers and others.

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Our spas are manufactured and sold under HOT SPRING®, CALDERA®, FREEFLOW® and other trademarks directly to independent specialty retailers as well as through online mass merchant retailers. Competitors include Jacuzzi, Sundance Spas, Master Spas and Dynasty Spas. We sell HÜPPE® shower enclosures through wholesale channels in Europe. HERITAGE ceramic and acrylic bath fixtures and faucets are principally sold in the United Kingdom directly to select retailers.

In 2014, we completed the process of integrating our plumbing products sold under our AQUA GLASS® and AMERICAN SHOWER & BATH brands into the DELTA and PEERLESS brands. Our acrylic tub and shower systems, bath and shower enclosure units, shower trays and laundry tubs are now manufactured and sold under the DELTA, PEERLESS, and MIROLIN® brand names. These products are sold primarily to home center retailers for home improvement and new home construction in North America, although our MIROLIN products are also sold to wholesalers and distributors in Canada.

Also included in our Plumbing Products segment are brass and copper plumbing system components and other plumbing specialties, which are sold to plumbing, heating and hardware wholesalers and to home center retailers, hardware stores, building supply outlets and other mass merchandisers. These products are marketed in North America for the wholesale trade under our BRASSCRAFT®, COBRA®, PLUMB SHOP®, and BRASSTECH®, and MASTER PLUMBER® trademarks, and are also sold under private label.

We believe that our plumbing products are among the leaders in sales in North America and Europe, with American Standard Brands, Kohler Co., Fortune Brands Home & Security Inc. and Pfister Faucets as major competitors. We are also experiencing competition from foreign manufacturers, including Grohe, particularly in Germany, China and the Middle East. We face significant competition from private label products (including house brands sold by certain of our customers). Many of the faucet and showering products with which our products compete are manufactured by foreign manufacturers that are putting downward pressure on price. The businesses in our Plumbing Products segment source products primarily from Asia and manufacture products in the United States, Europe and Asia. In addition to price, we believe that competition for our plumbing products is based largely on brand reputation, product quality, product innovation and features and breadth of product offering.

A substantial portion of our plumbing products contain brass, the major components of which are copper and zinc. We have multiple sources, both domestic and foreign, for the raw materials used in this segment, and sufficient raw materials have been available for our needs. We have encountered price volatility for brass, brass components and any components containing copper and zinc; therefore, we have implemented a hedging strategy to help reduce the impact of this volatility.

Federal legislation mandating a national standard for lead content in plumbing products used to convey drinking water became effective in January 2014. Faucet and water supply valve manufacturers, including our plumbing product companies, are required to obtain adequate supplies of lead-free brass or suitable alternative materials for continued production of faucets and certain of our other plumbing products. Our plumbing products that are affected by this legislation meet the federal standards, including our Delta Faucet products that use DIAMOND SEAL TECHNOLOGY, which also reduces the number of potential leak points in a faucet and simplifies installation.

Installation and Other Services

Our Installation and Other Services segment sells installed building products and distributes building products primarily for new home construction, and, to a lesser extent, retrofit and commercial construction, throughout the United States. In addition to insulation, we sell installed gutters, after-paint products, garage doors and fireplaces. The installation and distribution of insulation comprised approximately thirteen percent, twelve percent and eleven percent of our consolidated net sales in 2014, 2013 and 2012, respectively. We install building products primarily to homebuilders through our network of branches located across the United States. Our distributed products include insulation, insulation

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accessories, gutters and roofing, among others. Distributed products are sold primarily to contractors and dealers (including lumber yards) from distribution centers in various parts of the United States.

We continue to pursue the expansion of this segment to serve the residential and commercial channels and custom homes and we have several initiatives related to improved residential energy efficiency, including retrofit installation services (primarily insulation) delivered directly to homeowners and traditional remodeling contractors, as well as through retailers and dealer outlets.

In addition to price, we believe that competition in this industry is based largely on customer service and the quality of installation service. We believe that we are a leading provider of installed insulation in the new home construction industry in the United States. Our competitors include Installed Building Products and several regional contractors, as well as numerous local contractors and lumber yards. We believe that our capabilities and financial resources are substantial compared to regional and local contractors.

We procure the materials used by this segment, primarily insulation, from multiple sources.

Decorative Architectural Products

We produce architectural coatings including paints, primers, specialty paint products, stains and waterproofing products. The products are sold in the United States, Canada, China, Mexico and South America under the brand names BEHRPRO®, BEHR® and KILZ® to "do-it-yourself" and professional customers through home centers and other retailers. Net sales of architectural coatings comprised approximately 21 percent in 2014 and 2013 and approximately 20 percent of our consolidated net sales in 2012. Our competitors include large national and international brands such as Benjamin Moore, Glidden, Olympic, PPG, Sherwin-Williams, Valspar and Zinsser, as well as many regional and other national brands. In addition to price, we believe that competition in this industry is based largely on product quality, technology and product innovation, customer service and brand reputation. In 2014, Behr introduced MARQUEE® Interior Paint that delivers high-performance, one-coat coverage with every color in the exclusive MARQUEE Interior One-Coat Color Collection.

Our BEHR products are principally sold through The Home Depot, this segment's and our largest customer. The loss of this segment's sales to The Home Depot would have a material adverse effect on this segment's business and on our consolidated business as a whole.

Titanium dioxide is a major ingredient in the manufacture of paint. The price for titanium dioxide can fluctuate as a result of surges in global demand and production capacity limitations, which can impact our operating results in this segment. Petroleum products are also used in the manufacture of architectural coatings. Significant increases in the cost of crude oil and natural gas lead to higher raw material costs (e.g., for resins, solvents and packaging, as well as titanium dioxide), which can adversely affect the segment's results of operations. We have agreements with the significant suppliers of the major raw materials used in this segment which are intended to help assure continued availability.

Our Decorative Architectural Products segment also includes LIBERTY® and BRAINERD® branded cabinet, door, window and other hardware, which is manufactured for us and sold to home centers, other retailers, original equipment manufacturers and wholesalers. Key competitors in North America include Amerock, Top Knobs and house brands. Decorative bath hardware and shower accessories are sold under the brand names DELTA®, FRANKLIN BRASS® and DECOR BATHWARE® to distributors, home centers and other retailers. Competitors include Moen, Gatco and house brands sold by certain of our customers.

Other Specialty Products

We manufacture and sell vinyl, fiberglass and aluminum windows and patio doors, as well as the ESSENCE SERIES® windows and doors, which combines a wood interior with a fiberglass exterior,

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under the MILGARD® brand name for home improvement and new home construction, principally in the western United States. MILGARD products are sold primarily through dealers and, to a lesser extent, directly to production and custom homebuilders and through lumber yards and home centers. This segment's competitors in North America include national brands, such as Jeld-Wen, Marvin, Pella and Andersen, and numerous regional brands.

In the United Kingdom, we manufacture and sell windows, doors, related products and components under several brand names including GRIFFIN , PREMIER and DURAFLEX . Sales are primarily through dealers and wholesalers to the repair and remodeling markets, although our DURAFLEX products are also sold to other window fabricators. United Kingdom competitors include many small and mid-sized firms and a few large, vertically integrated competitors.

In addition to price, we believe that competition in this industry in both the domestic and foreign markets is based largely on customer service, product quality and brand reputation.

We manufacture and sell a complete line of manual and electric staple gun tackers, staples and other fastening tools under the brand names ARROW® and POWERSHOT®. We sell these products through various distribution channels including home centers and other retailers and wholesalers. Our principal North American competitor in this product line is Stanley Black & Decker.

The raw materials used in this segment have been available from multiple sources.

Additional Information

We hold U.S. and foreign patents, patent applications, licenses, trademarks, trade names, trade secrets and proprietary manufacturing processes. As a manufacturer and distributor of brand name products, we view our trademarks and other intellectual property rights as important, but do not believe that there is any reasonable likelihood of a loss of such rights that would have a material adverse effect on our present business as a whole.

We are subject to U.S. and foreign government regulations, particularly those pertaining to health and safety (including protection of employees and consumers), climate disruption and environmental issues. In addition to our responsibilities for environmental remediation, our businesses are subject to other requirements regarding protection of the environment and worker health and safety. Our businesses are subject to requirements relating to the emission of volatile organic compounds which may impact our sourcing of particleboard and may require that we install special equipment in manufacturing facilities or that we reformulate paint products. As described above, our Plumbing Products segment is subject to restrictions on lead content in some of its products. Compliance with such laws and regulations could significantly affect product performance as well as our production costs. We monitor applicable laws and regulations relating to the protection of the environment, climate disruption and worker health and safety, and incur ongoing expense relating to compliance. We do not expect compliance with the federal, state and local regulations relating to the discharge of materials into the environment, or otherwise relating to the protection of the environment and worker health and safety, will result in material capital expenditures or have a material adverse effect on our earnings or competitive position.

We do not consider backlog orders to be material in any of our segments.

At December 31, 2014, we employed approximately 32,000 people. We have generally experienced satisfactory relations with our employees.

Available Information

Our website is www.masco.com. Our periodic reports and all amendments to those reports required to be filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission. This Report is being posted on our website concurrently with its filing with the Securities and Exchange Commission. Material contained on our website is not incorporated by reference into this Report.

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Item 1A. Risk Factors.

There are a number of business risks and uncertainties that could affect our business. These risks and uncertainties could cause our actual results to differ from past performance or expected results. We consider the following risks and uncertainties to be most relevant to our specific business activities. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, also may adversely impact our business, financial condition and results of operations.

Risks Related to our Business

A significant portion of our business relies on home improvement and new home construction activity, both of which are cyclical.

A significant portion of our business relies on home improvement, including spending on repair and remodeling projects, and new home construction activity, principally in North America and Europe. Macroeconomic conditions, including consumer confidence levels, fluctuations in home prices, unemployment and underemployment levels, student loan debt, household formation and the availability of home equity loans and mortgages and the interest rates for such loans, affect both consumers' discretionary spending on home improvement projects as well as new home construction activity. Adverse changes or uncertainty regarding these macroeconomic conditions could result in a decline in spending on home improvement projects and a decline in demand for new home construction, both of which could adversely affect our results of operations and our financial position. While improving, both new home construction and consumer spending for big ticket remodeling projects continue to be below historic average levels.

If we do not maintain strong brands or respond to changing consumer preferences and purchasing practices, we could lose share and our results could be adversely affected.

Our competitive advantage is due, in part, to our ability to maintain our strong brands and to develop and introduce innovative new and improved products. While we continue to invest in brand building and brand awareness, these initiatives may not be successful. The uncertainties associated with developing and introducing new and improved products, such as gauging changing consumer preferences and successfully developing, manufacturing, marketing and selling these products, may impact the success of our product introductions. If we do not introduce new or improved products in a timely manner or if these products do not gain widespread acceptance, we could lose share, which could negatively impact our operating results.

The challenging economic environment of recent years has caused shifts in consumer preferences and purchasing practices and changes in the business models and strategies of our customers. Consumers are increasingly using the internet and mobile technology to research home improvement products and to inform and provide feedback on their purchasing and ownership experience for these products. E-business is a rapidly developing area, and development of a successful e-business strategy involves significant time, investment and resources. If we are unable to successfully execute our e-business strategy, our brands may lose share.

Similarly, the quantity, type and prices of products demanded by consumers and our customers have shifted. For example, demand has increased for multi-family housing units such as apartments and condominiums, which typically have smaller kitchens and smaller and fewer bathrooms, each with fewer cabinets and faucets, as well as less insulation, than single-family houses. While the economy is recovering, we are experiencing growth in certain channels for lower price point products. In some of our segments, these shifts have negatively impacted our sales and/or our profitability, and it is uncertain whether these shifts represent long-term changes in consumer preferences.

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If we do not timely and effectively identify and respond to these changing consumer preferences and purchasing practices, our relationships with our customers and with consumers could be harmed, the demand for our brands and products could be reduced and our results of operations could be negatively affected.

We may not achieve all of the anticipated benefits of our strategic and operational initiatives or our actions to improve our underperforming cabinetry businesses.

In 2014, we announced new strategic initiatives, which are designed to increase shareholder value over the mid- to long-term. Our business performance and results could be adversely affected if we are unable to execute these strategic initiatives, or if we are unable to execute them in a timely and efficient manner. We have also identified a number of operational initiatives, which include making significant investments in technology systems that are key to managing our business. We could be adversely affected if we do not effectively implement our operational initiatives in a timely manner.

The downturn in home improvement and new home construction activity during the recent recession impacted our results, particularly at our cabinetry businesses. In response, we have implemented initiatives to reduce costs and increase sales; however, there is no assurance that our efforts will yield all of the anticipated benefits. Our initiatives to improve our cabinetry operations, including rationalizing our businesses, closing plants and reducing headcount, have been complex, time-consuming and expensive. The consolidation of our North American Cabinet businesses, in particular, involved the integration of multiple manufacturing processes and information technology platforms and continues to affect our operations.

Our strategy to increase our cabinetry businesses' sales through brand building, enhanced customer relationships and new product introductions requires time to implement, execute and assess. Further, these businesses continue to face pricing pressures, competition from low-cost manufacturers and a shift in the mix of products in certain channels to more value-priced products. If our strategy to increase our sales is not successful, our results of operations may continue to be negatively impacted.

Our sales are concentrated with two significant customers.

The size and importance of individual customers to our businesses continues to increase. In 2014, net sales to our largest customer, The Home Depot, were $2.3 billion (approximately 27 percent of consolidated net sales). Lowe's is our second largest customer. In 2014, sales to Lowe's were less than ten percent of our consolidated net sales. These home center customers may reduce the number of vendors they purchase from and can make significant changes in their volume of purchases. Additionally, home centers can significantly affect the prices we receive for our products and services, our cost of doing business with them and the terms and conditions on which we do business. If the mix of our business operations significantly changes, including as a result of acquisitions or divestitures, our reliance on these significant customers may increase. Although homebuilders, dealers and other retailers represent other channels of distribution for our products and services, the loss of a substantial portion of our sales to The Home Depot or the loss of our sales to Lowe's would have a material adverse effect on our business.

Further, as some of our customers expand their markets and their targeted customers, conflicts between our existing distribution channels have and will continue to occur, which could impact our results of operations. We may undermine the business relationships we have with our current customers if we increase the amount of business we transact directly with consumers. In addition, our large retail customers are increasingly requesting product exclusivity, which may affect our ability to offer products to other customers and may diminish our ability to leverage economies of scale.

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We face significant competition.

Our products and services face significant competition. We believe that we compete on the basis of price, product and service quality, brand reputation, customer service and product features and innovation. Home centers continue to purchase select products in our segments directly from low-cost foreign manufacturers for sale as private label and house brand merchandise. Additionally, home centers, which have historically concentrated their sales efforts on retail consumers and remodelers, are increasingly marketing directly to professional contractors and installers, which may impact our margins on our products that contractors and installers would otherwise buy through our dealers and wholesalers.

In our other distribution channels, we compete with foreign manufacturers in a variety of our product groups. These foreign manufacturers are putting downward pressures on price. In some of our segments, we are continuing to experience a shift in the mix of some products we sell toward more value-priced or opening price point products, which may impact our ability to maintain or gain share and our profitability.

Our ability to maintain our competitive position in our industries and to grow our businesses depends upon successfully maintaining our relationships with major customers, implementing growth strategies and entering new geographic areas, including successful international penetration, developing a successful e-business strategy, maintaining strong brands, managing our cost structure, accommodating shorter life-cycles for our products, and developing and innovating products, none of which is assured.

If we experience increased commodity costs or limited availability of commodities, our operating results could be negatively impacted.

We buy various commodities to manufacture our products, including, among others, wood, brass (made of copper and zinc), titanium dioxide and resins. Fluctuations in the availability and prices of these commodities could increase our costs to manufacture our products. Further, increases in energy costs could increase our production costs as well as our transportation costs, each of which could negatively affect our financial condition and operating results.

It has been, and likely will continue to be, difficult for us to pass on to customers cost increases to cover our increased commodity and production costs. Our existing arrangements with customers, competitive considerations and customer resistance to price increases may delay or make us unable to adjust selling prices. If we are not able to increase the prices of our products or achieve cost savings to offset increased commodity and production costs, our financial condition and operating results could be negatively impacted. If we are able to increase our selling prices, sustained price increases for our products may lead to sales declines and loss of share, particularly if our competitors do not increase their prices. When commodity prices decline, we may receive pressure from our customers to reduce our prices.

To help reduce price volatility associated with certain anticipated commodity purchases, we use derivative instruments, including commodity futures and swaps. This strategy may increase the possibility that we may make commitments to purchase these commodities at prices that subsequently exceed their market prices, which could adversely affect our financial condition and operating results.

We are dependent on third-party suppliers and manufacturers, and the loss of a key supplier or manufacturer could negatively affect our operating results.

Our ability to offer a wide variety of products depends on our ability to obtain an adequate supply of products and components from manufacturers and other suppliers. We rely heavily or, in certain cases, exclusively, on third-party suppliers for some of our products and key components. Failure by our suppliers to provide us quality products on commercially reasonable terms, or to comply with applicable legal requirements, could have a material adverse effect on our financial condition or operating results. Resourcing these products and components to another supplier could take time and involve significant

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costs. Accordingly, the loss of a key supplier, or a substantial decrease in the availability of products or components from our suppliers, could disrupt our business and adversely impact our operating results.

Further, we manufacture products in Asia and source products and components from third parties in Asia. The distances involved in these arrangements, together with differences in business practices, shipping and delivery requirements, the limited number of suppliers, and laws and regulations, have increased the complexity of our supply chain logistics and the potential for interruptions in our production scheduling. If we are unable to effectively manage our supply chain, our operating results could be negatively affected.

If we cannot adequately protect or prevent unauthorized use of our intellectual property we may be adversely affected.

Protecting our intellectual property is critical to our innovation efforts. We own a number of patents, trade names, brand names and other forms of intellectual property in our products and manufacturing processes throughout the world. There can be no assurance that our efforts to protect our intellectual property rights will prevent violations. Our intellectual property may be challenged or infringed upon by third parties, particularly in countries where property rights are not highly developed or protected. In addition, the global nature of our business increases the risk that we may be unable to obtain or maintain our intellectual property rights on reasonable terms. Furthermore, others may assert intellectual property infringement claims against us. If we are not able to protect our existing intellectual property rights, or prevent unauthorized use of our intellectual property, sales of our products may be affected and we may experience reputational damage to our brand names, increased litigation costs and adverse impact to our competitive position, which could affect our results of operations.

International political, monetary, economic and social developments affect our business.

Approximately 19 percent of our sales are made outside of North America (principally in Europe) and are transacted in currencies other than U.S. dollars (principally the Euro and the British pound sterling). Increasing our international sales is an important part of our future strategic plans. In addition, we manufacture products in Asia and source products, components and raw materials from third parties in Asia. We face risks associated with changes in political, monetary, economic and social environments, labor conditions and practices, the laws, regulations and policies of foreign governments, cultural differences and differences in enforcement of contract and intellectual property rights. U.S. laws and regulations affecting activities of U.S. companies doing business abroad, including tax laws, laws regulating various business practices, and trade regulations which may include duties and tariffs can also impact us. Our international operating results may also be influenced by economic conditions in Europe. In addition, our financial results could be adversely affected by the currency conversion rate if the U.S. dollar strengthens in value relative to foreign currencies, particularly the Euro, and fluctuations in currency exchange rates may present challenges in comparing operating performance from period to period.

The long-term performance of our businesses relies on our ability to attract, develop and retain talented personnel.

To be successful, we must attract, develop and retain highly qualified and talented personnel who have the experience, knowledge and expertise to successfully implement our key business strategies. We compete for employees with a broad range of employers in many different industries, including large multinational firms, and we invest significant resources in recruiting, developing, motivating and retaining them. The failure to attract and retain key employees, or to develop effective succession planning to assure smooth transitions of those employees and the knowledge and expertise they possess, could negatively affect our competitive position and our operating results. Further, as the economy continues to recover, if we are unable to recruit, train and retain sufficient skilled labor, we may not be able to

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adequately satisfy increased demand for our products and services, which could impact our operating results.

Claims and litigation could be costly.

We are, from time to time, involved in various claims, litigation matters and regulatory proceedings that arise in the ordinary course of our business and which could have a material adverse effect on us. These matters may include contract disputes, automobile liability and other personal injury claims, warranty disputes, environmental claims or proceedings, other tort claims, employment and tax matters and other proceedings and litigation, including class actions.

We are subject to product safety regulations, recalls and direct claims for product liability that can result in significant liability and, regardless of the ultimate outcome, can be costly to defend or manage. Also, we rely on other manufacturers to provide us with products or components for products that we sell. Due to the difficulty of controlling the quality of products or components sourced from other manufacturers, we are exposed to risks relating to the quality of such products and to limitations on our recourse against such suppliers.

We have also experienced class action lawsuits in recent years predicated upon claims for antitrust violations, product liability and wage and hour issues. We have generally denied liability and have vigorously defended these cases. Due to their scope and complexity, however, these lawsuits can be particularly costly to defend and resolve, and we have and may continue to incur significant costs as a result of these types of lawsuits.

Our homebuilder customers are subject to construction defect and home warranty claims in the ordinary course of their business. Our contractual arrangements with these customers may include our agreement to defend and indemnify them against various liabilities. These claims, often asserted several years after completion of construction, can result in complex lawsuits or claims against the homebuilders and many of their subcontractors, including us, and may require us to incur defense and indemnity costs even when our products or services are not the principal basis for the claims.

Although we intend to defend all claims and litigation matters vigorously, given the inherently unpredictable nature of claims and litigation, we cannot predict with certainty the outcome or effect of any claim or litigation matter.

We maintain insurance against some, but not all, of these risks of loss resulting from claims and litigation. We may elect not to obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. The levels of insurance we maintain may not be adequate to fully cover any and all losses or liabilities. If any significant accident, judgment, claim or other event is not fully insured or indemnified against, it could have a material adverse impact on our business, financial condition and results of operations.

See Note U to the consolidated financial statements included in Item 8 of this Report for additional information about litigation involving our businesses.

If we are required to take additional significant non-cash charges, our financial resources could be reduced and our financial flexibility may be negatively affected.

We have recorded significant goodwill and other intangible assets related to prior business combinations on our balance sheet. The valuation of these assets is largely dependent upon the expectations for future performance of our businesses. Expectations about the growth of new home construction and home improvement activity may impact whether we are required to recognize additional non-cash, pre-tax impairment charges for goodwill and other indefinite-lived intangible assets or other long-lived assets. If the value of our goodwill or other intangible assets is further impaired, our earnings and shareholders' equity would be adversely affected.

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Further, our credit agreement contains financial covenants we must comply with, including covenants regarding limits on our debt to total capitalization ratio. If we are required to record additional non-cash impairment charges, our shareholders' equity would be reduced, and our borrowing capacity under our credit agreement may be limited. We have negotiated amendments to our credit agreement to allow for the add-back to shareholders' equity for impairment charges we have taken. There can be no assurance that in the future we would be able to further amend our credit agreement, that alternative financing would be available on acceptable terms and at acceptable rates, or that we would be permitted to obtain alternative financing under the terms of our existing financing arrangements.

Compliance with government regulation and industry standards could impact our operating results.

We are subject to federal, state and foreign government regulations, particularly those pertaining to health and safety (including protection of employees and consumers), climate disruption and environmental issues. In addition to complying with current requirements and requirements that will become effective at a future date, even more stringent requirements could be imposed on us in the future. Additionally, some of our products must be certified by industry organizations. Compliance with these regulations and industry standards may require us to alter our product designs, our manufacturing and installation processes or our sourcing. Such actions could divert our attention and resources to compliance activities, and could cause us to incur higher costs. Further, if we do not effectively and timely comply with such regulations and industry standards, our results of operations could be negatively affected.

Our operations may be adversely affected by information systems interruptions or intrusions.

We rely on a number of information technology systems to process, transmit, store and manage information to support our business activities. Increased global cybersecurity vulnerabilities, threats and more sophisticated and targeted attacks pose a risk to our information technology systems. We have established security policies, processes and layers of defense designed to help identify and protect against intentional and unintentional misappropriation or corruption of our systems and information and disruption of our operations. Despite these efforts, our systems may be damaged, disrupted, or shut down due to attacks by unauthorized access, malicious software, undetected intrusion, hardware failures, or other events, and in these circumstances our disaster recovery planning may be ineffective or inadequate. These breaches or intrusions could lead to business interruption, exposure of proprietary or confidential information, data corruption, damage to our reputation, exposure to litigation, and increased operational costs. Such events could have a material adverse impact on our business, financial condition and results of operation. In addition, we could be adversely affected if any of our significant customers or suppliers experience any similar events that disrupt their business operations or damage their reputation.

Risks Related to our Proposed Spin-off Transaction

We are pursuing a plan to spin-off our Installation and Other Services segment (our "Services Business"). We are incurring significant costs in connection with this transaction, which also requires considerable time and attention of our management, and we may not be able to complete the transaction or, if the transaction is completed, realize the anticipated benefits.

In September 2014, we announced a plan to separate our Services Business from our other businesses through a spin-off transaction in which we would distribute the common stock of the Services Business to our existing shareholders in a tax-free transaction. Completion of the transaction will be contingent upon approval by our Board of Directors, our receipt of an opinion from tax counsel, the

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effectiveness of a Registration Statement on Form 10, and certain other conditions. Additionally, our ability to complete the spin-off in a timely manner, if at all, could be affected by several factors, including:

- our ability to obtain sufficient financing for the newly-created entity on acceptable terms;
- our ability to obtain any necessary consents or approvals;
- changes in the underlying businesses, contracts, or customers; and
- political and economic conditions at the time of the transaction.

For these and other reasons, we may not be able to complete the spin-off within the expected time frame or at all. Even if the transaction is completed, we may not realize some or all of the anticipated benefits from the spin-off. We have incurred and will continue to incur significant costs in connection with this transaction, which will affect our profitability and operating results through completion of the transaction. Executing the proposed spin-off also requires considerable time and attention from management, which could distract them from other tasks in operating our business and executing our other strategic initiatives.

The proposed spin-off of our Services Business could result in substantial tax liability to us and our stockholders.

Among the conditions to completing the spin-off will be our receipt of an opinion of tax counsel substantially to the effect that, for U.S. federal income tax purposes, the spin-off and certain related transactions will qualify for tax-free treatment under certain sections of the Internal Revenue Code. However, if the factual assumptions or representations made by us in connection with the delivery of the opinion are inaccurate or incomplete in any material respect, including those relating to the past and future conduct of our business, we will not be able to rely on the opinion. Furthermore, the opinion will not be binding on the Internal Revenue Service ("IRS") or the courts. If, notwithstanding receipt of the opinion, the spin-off transaction and certain related transactions are determined to be taxable, we would be subject to a substantial tax liability. In addition, if the spin-off transaction is taxable, each holder of our common stock who receives shares of the new Services Business company would generally be treated as receiving a taxable distribution of property in an amount equal to the fair market value of the shares received, thereby potentially increasing such holder's tax liability.

Even if the spin-off otherwise qualifies as a tax-free transaction, the distribution could be taxable to us (but not to our stockholders) in certain circumstances if future significant acquisitions of our stock or the stock of the new Services Business company are deemed to be part of a plan or series of related transactions that included the spin-off. In this event, the resulting tax liability could be substantial. In connection with the spin-off, we expect to enter into a tax matters agreement with the new Services Business company, under which it will agree not to enter into any transaction without our consent that could cause any portion of the spin-off to be taxable to us and to indemnify us for any tax liability resulting from any such transaction. These obligations and potential tax liabilities may discourage, delay or prevent a change of control of us or of the new Services Business company.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The table below lists our principal North American properties for segments other than Installation and Other Services.

Business Segment	Manufacturing	Warehouse and Distribution
Cabinets and Related Products	8	7
Plumbing Products	18	5
Decorative Architectural Products	8	8
Other Specialty Products	10	5
Totals	44	25

Most of our North American facilities range from single warehouse buildings to complex manufacturing facilities. We own most of our North American manufacturing facilities, none of which are subject to significant encumbrances. A substantial number of our warehouse and distribution facilities are leased.

Our Installation and Other Services segment operates approximately 190 installation branch locations and approximately 75 distribution centers in the United States, most of which are leased.

The table below lists our principal properties outside of North America.

Business Segment	Manufacturing	Warehouse and Distribution
Cabinets and Related Products	1	1
Plumbing Products	11	22
Decorative Architectural Products		
Other Specialty Products	7	
Totals	19	23

Most of our international facilities are located in China, Germany and the United Kingdom. We own most of our international manufacturing facilities, none of which are subject to significant encumbrances. A substantial number of our international warehouse and distribution facilities are leased.

Our corporate headquarters are located in Taylor, Michigan and are owned by us. We own an additional building near our corporate headquarters that is used by our Masco Technical Services (research and development) department. We continue to lease an office facility in Luxembourg which serves as a headquarters for most of our foreign operations.

Each of our operating divisions assesses the manufacturing, distribution and other facilities needed to meet its operating requirements. Our buildings, machinery and equipment have been generally well maintained and are in good operating condition. We believe our facilities have sufficient capacity and are adequate for our production and distribution requirements.

Item 3. Legal Proceedings.

Information regarding legal proceedings involving us is set forth in Note U to our consolidated financial statements included in Item 8 of this Report and is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The New York Stock Exchange is the principal market on which our common stock is traded. The following table indicates the high and low sales prices of our common stock as reported by the New York Stock Exchange and the cash dividends declared per common share for the periods indicated:

Quarter	Market Price High	Market Price Low	Dividends Declared
2014			
Fourth	$ 25.58	$ 19.84	$ .09
Third	24.91	20.18	.09
Second	23.42	19.50	.09
First	23.73	20.60	.075
Total			$ .345
2013			
Fourth	$ 22.90	$ 19.11	$ .075
Third	22.94	18.27	.075
Second	22.83	18.43	.075
First	21.07	16.91	.075
Total			$ .30

On January 31, 2015, there were approximately 4,500 holders of record of our common stock.

We expect that our practice of paying quarterly dividends on our common stock will continue, although the payment of future dividends is at the discretion of our Board of Directors and will depend upon our earnings, capital requirements, financial condition and other factors.

In September 2014, our Board of Directors authorized the purchase of up to 50 million shares, for retirement of our common stock in open-market transactions or otherwise, replacing the previous authorization established in 2007. During 2014, we repurchased and retired 7 million shares of our common stock (including 1.7 million shares repurchased in the first quarter of 2014 to offset the dilutive impact of long-term stock awards) for cash aggregating $158 million. The following table provides information regarding the repurchase of our common stock for the three months ended December 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid Per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
10/1/14 - 10/31/14		$		50,000,000

11/1/14 - 11/30/14	2,600,000	$ 22.86	2,600,000	47,400,000
12/1/14 - 12/31/14	2,400,000	$ 24.63	2,400,000	45,000,000
Total for the quarter	5,000,000	$ 23.71	5,000,000	45,000,000

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Performance Graph

The table below compares the cumulative total shareholder return on our common stock with the cumulative total return of (i) the Standard & Poor's 500 Composite Stock Index ("S&P 500 Index"), (ii) The Standard & Poor's Industrials Index ("S&P Industrials Index") and (iii) the Standard & Poor's Consumer Durables & Apparel Index ("S&P Consumer Durables & Apparel Index"), from December 31, 2009 through December 31, 2014, when the closing price of our common stock was $25.20. The graph assumes investments of $100 on December 31, 2009 in our common stock and in each of the three indices and the reinvestment of dividends.

The table below sets forth the value, as of December 31 for each of the years indicated, of a $100 investment made on December 31, 2009 in each of our common stock, the S&P 500 Index, the S&P Industrials Index and the S&P Consumer Durables & Apparel Index and includes the reinvestment of dividends.

	2010	2011	2012	2013	2014
Masco	$ 93.85	$ 79.91	$ 129.32	$ 179.07	$ 200.78
S&P 500 Index	$ 114.82	$ 117.22	$ 135.83	$ 179.36	$ 203.60
S&P Industrials Index	$ 126.37	$ 125.60	$ 144.66	$ 202.79	$ 222.39
S&P Consumer Durables & Apparel Index	$ 130.54	$ 140.61	$ 170.84	$ 232.06	$ 253.37

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Item 6. Selected Financial Data.

	Dollars in Millions (Except Per Common Share Data)				
	2014	**2013**	**2012**	**2011**	**2010**
Net Sales **(1)**	$ 8,521	$ 8,173	$ 7,495	$ 7,170	$ 7,183
Operating profit (loss) **(1)(3)(4)(5)**	$ 788	$ 673	$ 302	$ (215)	$ (466)
Income (loss) from continuing operations attributable to Masco Corporation **(1)(2)(3)(4)(5)**	$ 861	$ 298	$ (53)	$ (385)	$ (1,028)
Income (loss) per common share from continuing operations:					
Basic	$ 2.42	$ .83	$ (.16)	$ (1.11)	$ (2.95)
Diluted	$ 2.39	$ .83	$ (.16)	$ (1.11)	$ (2.95)
Dividends declared	$ .345	$ .30	$ .30	$ .30	$ .30
Dividends paid	$ .33	$ .30	$ .30	$ .30	$ .30
At December 31:					
Total assets	$ 7,167	$ 6,957	$ 6,883	$ 7,305	$ 8,139
Long-term debt	2,919	3,421	3,422	3,222	4,032
Shareholders' equity	1,128	787	542	750	1,581

(1) Amounts exclude discontinued operations.

(2) The year 2014 includes a $529 million tax benefit from the release of the valuation allowance on deferred tax assets.

(3) The year 2012 includes non-cash impairment charges for other intangible assets aggregating $27 million after tax ($42 million pre-tax).

(4) The year 2011 includes non-cash impairment charges for goodwill and other intangible assets aggregating $291 million after tax ($450 million pre-tax).

(5) The year 2010 includes non-cash impairment charges for goodwill and other intangible assets aggregating $586 million after tax ($698 million pre-tax). The year 2010 also includes a $372 million non-cash charge to income tax expense to establish a valuation allowance on deferred tax assets.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The financial and business analysis below provides information which we believe is relevant to an assessment and understanding of our consolidated financial position, results of operations and cash flows. This financial and business analysis should be read in conjunction with the consolidated financial statements and related notes.

The following discussion and certain other sections of this Report contain statements reflecting our views about our future performance and constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "believe," "anticipate," "appear," "may," "will," "should," "intend," "plan," "estimate," "expect," "assume," "seek," "forecast" and similar references to future periods. These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in such forward-looking statements. We caution you against relying on any of these forward-looking statements. In addition to the various factors included in the "Executive Level Overview," "Critical Accounting Policies and Estimates" and "Outlook for the Company" sections, our future performance may be affected by our reliance on new home construction and home improvement, our reliance on key customers, the cost and availability of raw materials, uncertainty in the international economy, shifts in consumer preferences and purchasing practices, our ability to improve our underperforming businesses, our ability to maintain our competitive position in our industries, risks associated with the proposed spin-off of our Installation and Other Services businesses, our ability to realize the expected benefits of the spin-off, the timing and the terms of our share repurchase program, and our ability to reduce corporate expense and simplify our organizational structure. These and other factors are discussed in detail in Item 1A "Risk Factors" of this Report. Any forward-looking statement made by us speaks only as of the date on which it was made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise.

Executive Level Overview

We manufacture, distribute and install home improvement and building products. These products are sold for home improvement and new home construction through mass merchandisers, hardware stores, home centers, homebuilders, distributors and other outlets for consumers and contractors and direct to the consumer.

2014 Results

Net sales were positively affected by increased new home construction and repair and remodel activity in the U.S. and Europe. Such increases were partially offset by decreased sales volume in our North American cabinetry business. Our results of operations were positively affected by increased sales volume, as well as a more favorable relationship between selling prices and commodity costs, except in paints and stains. Our results of operations were negatively affected by increased business rationalization costs and costs associated with our proposed spin-off transaction. Most of our business segments also benefited from the business rationalizations and cost savings initiatives we have undertaken over the last several years.

Our Cabinets and Related Products segment was negatively affected by lower sales volume of our North American operations, which completely offset a more favorable relationship between selling prices and commodity costs and any increased sales volume by our U.K. cabinet business. Our Plumbing Products segment benefited from increased sales volume of North American and International operations, as well as a more favorable relationship between selling prices and commodity costs. The Installation and Other Services segment benefited from increased new home construction and

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commercial activity and a more favorable relationship between selling prices and commodity costs. The Decorative Architectural Products segment benefited from increased sales volume of paints and stains and builders' hardware, which was offset by a less favorable relationship between selling prices and commodity costs in paints and stains. Our Other Specialty Products segment benefited from a more favorable relationship between selling prices and commodity costs and a more favorable product mix of U.S. and U.K. windows, as well as increased sales volume.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We regularly review our estimates and assumptions, which are based upon historical experience, as well as current economic conditions and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions.

Note A to our consolidated financial statements includes our accounting policies, estimates and methods used in the preparation of our consolidated financial statements.

We believe that the following critical accounting policies are affected by significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition and Receivables

We recognize revenue as title to products and risk of loss is transferred to customers or when services are rendered. We record revenue for unbilled services performed based upon estimates of material and labor incurred in the Installation and Other Services segment; such amounts are recorded in Receivables. Receivables include unbilled revenue related to the Installation and Other Services segment of $24 million at both December 31, 2014 and 2013. We record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and co-operative advertising arrangements, promotions and other volume-based incentives. We maintain allowances for doubtful accounts receivable for estimated losses resulting from the inability of customers to make required payments. In addition, we monitor our customer receivable balances and the credit worthiness of our customers on an on-going basis.

Goodwill and Other Intangible Assets

We record the excess of purchase cost over the fair value of net tangible assets of acquired companies as goodwill or other identifiable intangible assets. In the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, we complete the impairment testing of goodwill utilizing a discounted cash flow method. We selected the discounted cash flow methodology because we believe that it is comparable to what would be used by other market participants. We have defined our reporting units and completed the impairment testing of goodwill at the operating segment level, as defined by accounting guidance.

Determining market values using a discounted cash flow method requires us to make significant estimates and assumptions, including long-term projections of cash flows, market conditions and

appropriate discount rates. Our judgments are based upon historical experience, current market trends, consultations with external valuation specialists and other information. While we believe that the estimates and assumptions underlying the valuation methodology are reasonable, different estimates and assumptions could result in different outcomes. In estimating future cash flows, we rely on internally generated five-year forecasts for sales and operating profits, including capital expenditures, and generally a one to three percent long-term assumed annual growth rate of cash flows for periods after the five-year forecast. We generally develop these forecasts based upon, among other things, recent sales data for existing products, planned timing of new product launches, estimated housing starts and estimated repair and remodel activity.

In 2014, we utilized estimated housing starts, from independent industry sources, growing from current levels to 1.45 million units in 2019 (terminal growth year) and operating profit margins improving to approximate historical levels for those business units by 2019 (terminal growth year). We utilize our weighted average cost of capital of approximately 9 percent as the basis to determine the discount rate to apply to the estimated future cash flows. Our weighted average cost of capital decreased in 2014 primarily due to lower bond rates. In 2014, based upon our assessment of the risks impacting each of our businesses, we applied a risk premium to increase the discount rate to a range of 11.0 percent to 14.0 percent for our reporting units.

If the carrying amount of a reporting unit exceeds its fair value, we measure the possible goodwill impairment based upon an allocation of the estimate of fair value of the reporting unit to all of the underlying assets and liabilities of the reporting unit, including any previously unrecognized intangible assets (Step Two Analysis). The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized to the extent that a reporting unit's recorded goodwill exceeds the implied fair value of goodwill.

In the fourth quarter of 2014, we estimated that future discounted cash flows projected for all of our reporting units were greater than the carrying values. Accordingly, we did not recognize any impairment charges for goodwill.

A 10 percent decrease in the estimated fair value of our reporting units at December 31, 2014 would not have resulted in any additional analysis of goodwill impairment for any additional reporting unit.

We review our other indefinite-lived intangible assets for impairment annually, in the fourth quarter, or as events occur or circumstances change that indicate the assets may be impaired without regard to the business unit. We consider the implications of both external (e.g., market growth, competition and local economic conditions) and internal (e.g., product sales and expected product growth) factors and their potential impact on cash flows related to the intangible asset in both the near- and long-term. In 2014, we recognized an insignificant impairment charge for other indefinite-lived intangible assets.

Employee Retirement Plans

Effective January 1, 2010, we froze all future benefit accruals under substantially all of our domestic qualified and non-qualified defined-benefit pension plans.

Accounting for defined-benefit pension plans involves estimating the cost of benefits to be provided in the future, based upon vested years of service, and attributing those costs over the time period each employee works. We develop our pension costs and obligations from actuarial valuations. Inherent in these valuations are key assumptions regarding inflation, expected return on plan assets, mortality rates and discount rates for obligations and expenses. We consider current market conditions, including changes in interest rates, in selecting these assumptions. Changes in assumptions used could result in changes to reported pension costs and obligations within our consolidated financial statements.

In December 2014, our discount rate decreased for obligations to an average of 3.80 percent from 4.40 percent. The discount rate for obligations is based upon the expected duration of each defined-

benefit pension plan's liabilities matched to the December 31, 2014 Towers Watson Rate Link curve. The discount rates we use for our defined-benefit pension plans ranged from 2.00 percent to 4.00 percent, with the most significant portion of the liabilities having a discount rate for obligations of 3.70 percent or higher. The assumed asset return was primarily 7.25 percent, reflecting the expected long-term return on plan assets.

Our net underfunded amount for our qualified defined-benefit pension plans, which is the difference between the projected benefit obligation and plan assets, increased to $454 million at December 31, 2014 from $324 million at December 31, 2013. Our projected benefit obligation for our unfunded non-qualified defined-benefit pension plans was $190 million at December 31, 2014 compared with $163 million at December 31, 2013.

The increase in the projected benefit obligations was primarily due to lower bond rates and a change to the RP 2014 Mortality tables issued by the U.S. Society of Actuaries, which increased our long-term pension liabilities. Our qualified domestic pension plan assets in 2014 had a net gain of 3.6 percent compared to average gains of 9.5 percent for the InvestorForce Defined Benefit Plan Universe.

At December 31, 2014, we reported a net liability of $644 million, of which $190 million was related to our non-qualified, supplemental retirement plans, which are not subject to the funding requirements of the Pension Protection Act of 2006. In accordance with the Pension Protection Act, the Adjusted Funding Target Attainment Percentage for the various defined-benefit pension plans ranges from 79 percent to 90 percent.

We expect pension expense for our qualified defined-benefit pension plans to be $23 million in 2015 compared with $16 million in 2014. If we assumed that the future return on plan assets was one-half percent lower than the assumed asset return and the discount rate decreased by 50 basis points, the 2015 pension expense would increase by $5 million. We expect pension expense for our non-qualified defined-benefit pension plans to be $10 million in 2015 compared with $9 million in 2014.

We anticipate that we will be required to contribute approximately $55 million to $65 million in 2015 to our qualified and non-qualified defined-benefit plans.

Income Taxes

The accounting guidance for income taxes requires that the future realization of deferred tax assets depends on the existence of sufficient taxable income in future periods. Possible sources of taxable income include taxable income in carryback periods, the future reversal of existing taxable temporary differences recorded as a deferred tax liability, tax-planning strategies that generate future income or gains in excess of anticipated losses in the carryforward period and projected future taxable income.

If, based upon all available evidence, both positive and negative, it is more likely than not (more than 50 percent likely) such deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable. A company's three-year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable and the accounting guidance restricts the amount of reliance we can place on projected taxable income to support the recovery of the deferred tax assets.

In 2010, we recorded a $372 million valuation allowance against our U.S. Federal deferred tax assets as a non-cash charge to income tax expense. In reaching this conclusion, we considered the weaker retail sales of certain of our building products and the slower than anticipated recovery in the U.S. housing market which led to U.S. operating losses and significant U.S. goodwill impairment charges, that primarily occurred in the fourth quarter of 2010, causing us to be in a three-year cumulative U.S. loss position.

During 2012 and 2011, objective and verifiable negative evidence, such as U.S. operating losses and significant impairment charges for U.S. goodwill in 2011 and other intangible assets, continued to

outweigh positive evidence necessary to reduce the valuation allowance. As a result, we recorded increases of $65 million and $87 million in the valuation allowance related to our U.S. Federal deferred tax assets as a non-cash charge to income tax expense in 2012 and 2011, respectively.

In the third quarter of 2014, we recorded a $517 million tax benefit from the release of the valuation allowance against our U.S. Federal and certain state deferred tax assets due primarily to a return to sustainable profitability in our U.S. operations. In reaching this conclusion, we considered the continued improvement in both the new home construction market and repair and remodel activity in the U.S. and our progress on strategic initiatives to reduce costs and expand our product leadership positions which contributed to the continued improvement in our U.S. operations over the past few years.

In the fourth quarter of 2014, we recorded an additional $12 million tax benefit from the release of the valuation allowances against certain U.K. and Mexican deferred tax assets primarily resulting from a return to sustainable profitability in these jurisdictions.

We continue to maintain a valuation allowance on certain state and foreign deferred tax assets as of December 31, 2014. Should we determine that we would not be able to realize our remaining deferred tax assets in these jurisdictions in the future, an adjustment to the valuation allowance would be recorded in the period such determination is made. The need to maintain a valuation allowance against deferred tax assets may cause greater volatility in our effective tax rate.

It is reasonably possible that the continued improvements in certain of our businesses located in the U.S. could result in the objective positive evidence necessary to warrant the additional reversal of all or a portion of the valuation allowance, up to approximately $27 million, by the end of 2015.

The current accounting guidance allows the recognition of only those income tax positions that have a greater than 50 percent likelihood of being sustained upon examination by the taxing authorities. We believe that there is an increased potential for volatility in our effective tax rate because this threshold allows changes in the income tax environment and the inherent complexities of income tax law in a substantial number of jurisdictions to affect the computation of our liability for uncertain tax positions to a greater extent.

While we believe we have adequately provided for our uncertain tax positions, amounts asserted by taxing authorities could vary from our liability for uncertain tax positions. Accordingly, additional provisions for tax-related matters, including interest and penalties, could be recorded in income tax expense in the period revised estimates are made or the underlying matters are settled or otherwise resolved.

Warranty

At the time of sale, we accrue a warranty liability for the estimated cost to provide products, parts or services to repair or replace products in satisfaction of warranty obligations. Our estimate of costs to service our warranty obligations is based upon the information available and includes a number of factors such as the warranty coverage, the warranty period, historical experience specific to the nature, frequency and average cost to service the claim, along with product manufacturing metrics and industry and demographic trends.

Certain factors and related assumptions in determining our warranty liability involve judgments and estimates and are sensitive to changes in the aforementioned factors. We believe that the warranty accrual is appropriate; however, actual claims incurred could differ from the original estimates thereby requiring adjustments to previously established accruals.

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A majority of our business is at the consumer retail level through home centers and major retailers. A consumer may return a product to a retail outlet that is a warranty return. However, certain retail outlets do not distinguish between warranty and other types of returns when they claim a return deduction from us. Our revenue recognition policy takes into account this type of return when recognizing revenue, and deductions are recorded at the time of sale.

Litigation

We are subject to lawsuits and pending or asserted claims in the ordinary course of our business. Liabilities and costs associated with these matters require estimates and judgments based upon our professional knowledge and experience and that of our legal counsel. When estimates of our exposure for lawsuits and pending or asserted claims meet the criteria for recognition under accounting guidance, amounts are recorded as charges to earnings. The ultimate resolution of these exposures may differ due to subsequent developments.

Corporate Development Strategy

Our business strategy includes expanding our product leadership and implementing lean principles and product process improvements across our business units. Going forward, we expect to maintain a balanced growth strategy with emphasis on cash flow, organic growth with smaller acquisitions and growth through new product development.

As part of our strategic planning, we continue to review all of our businesses to determine which businesses may not be core to our long-term growth strategy.

On September 30, 2014, we announced a plan to spin off 100 percent of our Installation and Other Services businesses into an independent, publicly-traded company through a tax-free stock distribution to our shareholders. The transaction is expected to be completed in mid-2015.

Liquidity and Capital Resources

Historically, we have largely funded our growth through cash provided by our operations, long-term bank debt and the issuance of notes in the financial markets, and by the issuance of our common stock, including issuances for certain mergers and acquisitions. Maintaining high levels of liquidity and focusing on cash generation are among our financial strategies.

Our total debt as a percent of total capitalization was 75 percent and 81 percent at December 31, 2014 and 2013, respectively.

On March 28, 2013, we entered into a Credit Agreement (the "Credit Agreement") with a bank group, with an aggregate commitment of $1.25 billion and a maturity date of March 28, 2018.

The Credit Agreement contains financial covenants requiring us to maintain (A) a maximum debt to total capitalization ratio, as adjusted for certain items, of 65 percent, and (B) a minimum interest coverage ratio, as adjusted for certain items, equal to or greater than 2.5 to 1.0. The debt to total capitalization ratio allows the add-back, if incurred, of up to the first $250 million of certain non-cash charges, including goodwill and other intangible asset impairment charges, occurring from and after January 1, 2012 that would negatively impact shareholders' equity.

At December 31, 2014, we had additional borrowing capacity, subject to availability, of up to $1.2 billion. Alternatively, at December 31, 2014, we could absorb a reduction to shareholders' equity of approximately $747 million and remain in compliance with the debt to total capitalization covenant. We were in compliance with all Credit Agreement covenants and we had no borrowings under the Credit Agreement at December 31, 2014.

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We had cash, cash investments and short-term bank deposits of approximately $1.7 billion at December 31, 2014. Our cash and cash investments consist of overnight interest bearing money market demand and time deposit accounts, money market mutual funds containing government securities and treasury obligations. While we attempt to diversify these investments in a prudent manner to minimize risk, it is possible that future changes in the financial markets could affect the security or availability of these investments.

Of the $1.7 billion and the $1.5 billion of cash, cash investments and short-term bank deposits we held at December 31, 2014 and 2013, respectively, $672 million and $622 million, respectively, is held in our foreign subsidiaries. If these funds were needed for our operations in the U.S., their repatriation into the U.S. may result in additional U.S. income taxes or foreign withholding taxes. The amount of such taxes is dependent on the income tax laws and circumstances at the time of distribution.

We utilize derivative and hedging instruments to manage our exposure to currency fluctuations, primarily related to the European euro and the U.S. dollar; commodity cost fluctuations, primarily zinc and copper; and interest rate fluctuations, primarily related to debt issuances. We review our hedging program, derivative positions and overall risk management on a regular basis.

In the second quarter of 2014, we increased our quarterly dividend to $.09 per common share from $.075 per common share.

Our current ratio was 1.7 to 1 and 2.1 to 1 at December 31, 2014 and 2013, respectively. The decrease in the current ratio was due to the short-term classification of $500 million of 4.8% Notes due June 2015 at December 31, 2014.

Cash Flows

Significant sources and (uses) of cash in the past three years are summarized as follows, in millions:

	2014	2013	2012
Net cash from operating activities	$ 602	$ 645	$ 281
Cash dividends paid	(117)	(107)	(107)
Capital expenditures	(128)	(126)	(119)
Purchase of Company common stock	(158)	(35)	(8)
Proceeds from disposition of:			
Businesses, net of cash disposed		17	9
Property and equipment, net	16	27	67
Financial investments, net	63	15	40
Decrease in debt, net	(2)	(2)	(1)
Dividends paid to noncontrolling interest	(34)	(34)	(40)
(Purchases) proceeds of short-term bank deposits, net	(20)	2	(2)
Acquisition of businesses, net of cash acquired	(2)	(7)	
Retirement of notes		(200)	(791)
Issuance of notes, net of issuance costs			396
Payment for settlement of swaps			(25)
Effect of exchange rates on cash and cash investments	(45)	(3)	11
Other, net	(15)	(9)	(24)
Cash increase (decrease)	$ 160	$ 183	$ (313)

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Our working capital days were as follows:

	At December 31,	
	2014	2013
Receivable days	47	46
Inventory days	49	49
Accounts Payable days	71	67
Working capital (receivables plus inventories, less accounts payable) as a % of net sales	10.7%	10.6%

Net cash provided by operations of $602 million consisted primarily of net income adjusted for non-cash and certain other items, including depreciation and amortization expense of $167 million, a $406 million net decrease in deferred taxes and other non-cash items, including stock-based compensation expense and amortization expense related to in-store displays. Our cash provided by operations was positively affected by increased sales and more effective accounts payable management.

Net cash used for financing activities was $297 million, primarily due to $158 million for the repurchase and retirement of company common stock in open market transactions (as part of our strategic initiative to drive shareholder value, and includes 1.7 million shares repurchased to offset the dilutive impact of long-term stock awards granted in 2014), $117 million for cash dividends paid and $34 million for dividends paid to noncontrolling interest.

In September 2014, our Board of Directors authorized the repurchase of up to 50 million shares for retirement of our common stock in open-market transactions or otherwise, replacing the previous Board of Directors authorization established in 2007. During the fourth quarter of 2014, we repurchased and retired 5 million common shares for cash of $119 million. At December 31, 2014, we had remaining authorization from our Board of Directors to repurchase up to an additional 45 million shares of our common stock. We expect to repurchase between $400 million and $500 million of our common stock in 2015.

We believe that our present cash balance and cash flows from operations are sufficient to fund our near-term working capital and other investment needs. We believe that our longer-term working capital and other general corporate requirements will be satisfied through cash flows from operations and, to the extent necessary, from bank borrowings and future financial market activities. Consistent with past practice, we anticipate repurchasing shares in 2015 as part of our strategic initiative and to offset any dilution from long-term stock awards granted as part of our compensation programs.

Net cash used for investing activities was $100 million, and included $128 million for capital expenditures. Cash provided by investing activities included primarily $63 million from the net sale of financial investments and $16 million of net proceeds from the disposition of property and equipment. Investing activities also include net cash used for the purchase of short-term bank deposits of $20 million.

We continue to invest in our manufacturing operations to increase our productivity, improve customer service and support new product innovation, as well as to invest in our distribution facilities. Capital expenditures for 2014 were $128 million, compared with $126 million for 2013 and $119 million for 2012. For 2015, capital expenditures, excluding any potential 2015 acquisitions, are expected to be approximately $190 million. Depreciation and amortization expense for 2014 totaled $167 million, compared with $186 million for 2013 and $214 million for 2012, including accelerated depreciation of $1 million, $13 million and $28 million in 2014, 2013 and 2012, respectively. For 2015, depreciation and amortization expense, excluding any potential 2015 acquisitions, is expected to be approximately $154 million. Amortization expense totaled $10 million, $11 million and $12 million in 2014, 2013 and 2012, respectively.

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Costs of environmental responsibilities and compliance with existing environmental laws and regulations have not had, nor do we expect them to have, a material effect on our capital expenditures, financial position or results of operations.

Consolidated Results of Operations

We report our financial results in accordance with GAAP in the United States. However, we believe that certain non-GAAP performance measures and ratios, used in managing the business, may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. Non-GAAP performance measures and ratios should be viewed in addition to, and not as an alternative for, our reported results.

Sales and Operations

Net sales for 2014 were $8.5 billion, which increased four percent compared with 2013. The effect of currency translation and acquisitions was insignificant compared with 2013. The following table reconciles reported net sales to net sales excluding acquisitions and the effect of currency translation, in millions:

	Year Ended December 31	
	2014	2013
Net sales, as reported	$ 8,521	$ 8,173
Acquisitions	(2)	
Net sales, excluding acquisitions	8,519	8,173
Currency translation	(6)	
Net sales, excluding acquisitions and the effect of currency	$ 8,513	$ 8,173

Net sales for 2014 were positively affected by increased sales volume of North American plumbing products, installation and other services, paints and stains, builders' hardware and windows, which, in aggregate, increased sales by approximately three percent compared to 2013. Net sales for 2014 were also positively affected by selling prices for cabinets, international plumbing products, installation and other services and windows, which in aggregate increased sales by approximately two percent. Net sales for 2014 were negatively affected by lower sales volume of cabinets and by lower selling prices of paints and stains.

Net sales for 2013 were positively affected by increased sales volume of North American cabinets (such increase in cabinets was partially offset by a less favorable product mix), installation and other services, plumbing products, paints and stains, builders' hardware and windows, which, in aggregate, increased sales by approximately seven percent compared to 2012. Net sales of international plumbing products and cabinets also increased sales by one percent compared to 2012. Net sales for 2013 were also positively affected by selling prices, which increased sales by approximately one percent. Net sales for 2013 were negatively affected by lower selling prices of paints and stains.

Net sales for 2012 were positively affected by increased sales volume of installed products, North American plumbing products, paints and stains, builders' hardware and windows, and selling price increases. Net sales for 2012 were negatively affected by the planned exit of certain cabinet and window product lines in certain geographic areas.

Our gross profit margins were 28.0 percent, 27.6 percent and 26.1 percent in 2014, 2013 and 2012, respectively. The 2014 and 2013 gross profit margin reflects a more favorable relationship between selling prices and commodity costs as well as increased sales volume. Both 2014 and 2013 reflect the benefits associated with business rationalizations and other cost savings initiatives.

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Selling, general and administrative expenses as a percent of sales were 18.9 percent in 2014 compared with 19.4 percent in 2013 and 20.5 percent in 2012. Selling, general and administrative expenses as a percent of sales in 2014 and 2013 reflect increased sales. Both 2014 and 2013 also reflect the benefits associated with our business rationalizations and other cost savings initiatives.

The following table reconciles reported operating profit to operating profit, as adjusted to exclude certain items, dollars in millions:

	2014	2013	2012
Operating profit, as reported	$ 788	$ 673	$ 302
Rationalization charges	66	48	75
Costs related to spin-off of Services Business	6		
Impairment charges for other intangible assets			42
(Income) charge for litigation settlements	(9)		77
Gains from sales of fixed assets, net			(8)
Operating profit, as adjusted	$ 851	$ 721	$ 488
Operating profit margins, as reported	9.2%	8.2%	4.0%
Operating profit margins, as adjusted	10.0%	8.8%	6.5%

Operating margins in 2014 and 2013 were positively affected by a more favorable relationship between selling prices and commodity costs, increased sales volume and the benefits associated with business rationalizations and other cost savings initiatives.

Other Income (Expense), Net

Other, net, for 2014 included gains of $4 million from private equity funds and realized foreign currency gains of $5 million and other miscellaneous items. Other, net, for 2014 included losses from equity investments, net, of $2 million.

Other, net, for 2013 included income from equity investments, net of $16 million and gains of $11 million from private equity funds. Other, net, for 2013 also included realized foreign currency losses of $18 million and other miscellaneous items.

In 2013, in conjunction with the transaction to sell our Danish ready-to-assemble cabinet business (included in discontinued operations), we also disposed of a related Danish holding company. This disposition triggered the settlement of loans, which resulted in the recognition of $18 million of currency translation expense, which is included in other income (expense), net from continuing operations in the statement of operations.

Other, net, for 2012 included net gains of $24 million from private equity funds. During 2012, we recognized non-cash, pre-tax impairment charges aggregating $2 million for an investment in a private equity fund. Other, net, for 2012 also included realized foreign currency losses of $2 million and other miscellaneous items.

Interest expense was $225 million in 2014, $235 million in 2013 and $254 million in 2012.

Income (Loss) and Earnings (Loss) Per Common Share from Continuing Operations (Attributable to Masco Corporation)

Income and diluted income per common share from continuing operations for 2014 were $861 million and $2.39 per common share, respectively. Income and diluted income per common share from continuing operations for 2013 were $298 million and $.83 per common share, respectively. (Loss) and diluted (loss) per common share from continuing operations for 2012 were $(53) million and $(.16) per common share, respectively. (Loss) from continuing operations for 2012 included non-cash, pre-tax impairment charges for other intangible assets of $42 million ($27 million or $.08 per common share, after tax).

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Our effective tax rate on income (loss) from continuing operations was 58 percent tax benefit, 25 percent tax expense and 125 percent tax expense in 2014, 2013 and 2012, respectively. Compared to our normalized tax rate of 36 percent, the variance in 2014 is primarily due to $529 million tax benefit related to the reversal of the valuation allowance on our deferred tax assets. The variance from our normalized tax rate in 2013 and 2012 is due primarily to changes in the U.S. Federal valuation allowance and reversal of an accrual for uncertain tax positions.

Outlook for the Company

We continue to make progress on our strategic initiatives, which include leveraging opportunities across our businesses, driving the full potential of our core businesses and actively managing our portfolio. In 2015, we expect new home construction and repair and remodel activity to show continued improvement in North American and internationally. Our focus will be to continue to maximize the benefits of this activity and maintain the positive momentum. We are well positioned to grow our key brands and to gain share in our channels in 2015.

We believe and are confident that the long-term fundamentals for new home construction and home improvement activity continue to be positive. We believe that our strong financial position, together with our current strategy of investing in leadership brands, including KRAFTMAID and MERILLAT cabinets, DELTA and HANSGROHE faucets, BEHR paint and MILGARD windows, our continued focus on innovation and our commitment to lean principles, will allow us to drive long-term growth and create value for our shareholders.

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Business Segment and Geographic Area Results

The following table sets forth our net sales and operating profit (loss) information by business segment and geographic area, dollars in millions.

	2014	2013	2012	Percent Change 2014 vs. 2013	Percent Change 2013 vs. 2012
Net Sales:					
Cabinets and Related Products	$ 999	$ 1,014	$ 939	(1)%	8%
Plumbing Products	3,308	3,183	2,955	4 %	8%
Installation and Other Services	1,515	1,412	1,209	7 %	17%
Decorative Architectural Products	1,998	1,927	1,818	4 %	6%
Other Specialty Products	701	637	574	10 %	11%
Total	$ 8,521	$ 8,173	$ 7,495	4 %	9%
North America	$ 6,892	$ 6,634	$ 6,046	4 %	10%
International, principally Europe	1,629	1,539	1,449	6 %	6%
Total	$ 8,521	$ 8,173	$ 7,495	4 %	9%

	2014	2013	2012	2012 (B)
Operating Profit (Loss): (A)				
Cabinets and Related Products	$ (62)	$ (10)	$ (89)	$ (89)
Plumbing Products	512	394	307	307
Installation and Other Services	58	37	(19)	(19)
Decorative Architectural Products	360	351	329	329
Other Specialty Products	47	35	(31)	11
Total	$ 915	$ 807	$ 497	$ 539
North America	$ 701	$ 649	$ 360	$ 402
International, principally Europe	214	158	137	137
Total	915	807	497	539
General corporate expense, net	(136)	(134)	(126)	(126)
Income (charge) for litigation settlements	9		(77)	(77)
Gain from sales of fixed assets, net			8	8
Total operating profit	$ 788	$ 673	$ 302	$ 344

	2014	2013	2012	2012 (B)
Operating Profit (Loss) Margin: (A)				
Cabinets and Related Products	(6.2)%	(1.0)%	(9.5)%	(9.5)%
Plumbing Products	15.5 %	12.4 %	10.4 %	10.4 %
Installation and Other Services	3.8 %	2.6 %	(1.6)%	(1.6)%
Decorative Architectural Products	18.0 %	18.2 %	18.1 %	18.1 %
Other Specialty Products	6.7 %	5.5 %	(5.4)%	1.9 %
North America	10.2 %	9.8 %	6.0 %	6.6 %
International, principally Europe	13.1 %	10.3 %	9.5 %	9.5 %
Total	10.7 %	9.9 %	6.6 %	7.2 %
Total operating profit margin, as reported	9.2 %	8.2 %	4.0 %	N/A

(A)

Before general corporate expense, net, gain from sales of fixed assets, net and certain income (charge) for litigation settlements; see Note P to the consolidated financial statements.

(B)

Excluding impairment charges for other intangible assets. The 2012 impairment charge for other intangible assets was as follows: Other Specialty Products $42 million.

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Business Segment Results Discussion

Changes in operating profit margins in the following Business Segment and Geographic Area Results discussion exclude general corporate expense, net, income (charge) for litigation settlements, net, gain from sales of fixed assets, net and impairment charges for other intangible assets in 2014, 2013 and 2012, as applicable.

Business Rationalizations and Other Initiatives

Over the last several years, we have taken several actions focused on the strategic rationalization of our businesses including business consolidations, plant closures, headcount reductions and other cost savings initiatives. For the years ended December 31, 2014, 2013 and 2012, we incurred net pre-tax costs and charges related to these initiatives of $72 million (including $6 million of spin-off transaction costs), $48 million and $75 million, respectively.

We continue to realize the benefits of our business rationalizations and continuous improvement initiatives across our enterprise and expect to identify additional opportunities to improve our business operations. We do not anticipate that any costs and charges related to our ongoing commitment to continuous improvement will be as significant as they have been.

During 2014, our North American cabinet business continued to incur costs and charges of $31 million primarily related to actions taken to sell two previously idled manufacturing facilities. Our corporate office incurred $27 million in costs primarily related to severance actions. Finally, we incurred $8 million of costs and charges across our business units related to other cost savings initiatives.

On September 30, 2014, we announced a plan to spin off 100 percent of our Installation and Other Services businesses into an independent, publicly-traded company through a tax-free stock distribution to our shareholders. The transaction is expected to be completed in mid-2015. Through December 31, 2014, we have incurred $6 million of costs and charges related to this transaction. Under generally accepted accounting principles, the Installation and Other Services businesses are included in continuing operations until the transaction is completed.

During 2013, our North American cabinet business continued to incur costs and charges of $11 million related to the closure of a cabinet components facility and additional severance. Our Plumbing Products segment incurred costs of $16 million related to a plant consolidation and severance in our bathing systems business in North America. Finally, we incurred $21 million of costs and charges across our business units related to other cost savings initiatives.

During 2012, our North American cabinet business incurred costs and charges of $33 million related to the closure of its countertop manufacturing facility (as a result of our strategic change to a sourcing model for countertops), the closure of a cabinet components facility and additional headcount reductions. Our Plumbing Products segment incurred costs of $25 million related to a plant closure and severance in our bathing systems business in North America and a plant closure and severance in Spain. We also incurred $14 million in costs related to severance actions at our corporate office. Finally, we incurred $3 million of costs and charges across our business units related to other cost savings initiatives.

Based on current plans, we anticipate costs and charges related to our business rationalizations and other initiatives to approximate $30 million in 2015. Our business rationalization expenses in 2015 include approximately $25 million of costs and charges related to the spin-off transaction. We continue to evaluate our businesses and may implement additional rationalization programs based on changes in our markets which could result in further costs and charges.

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Cabinets and Related Products

Sales

Net sales of Cabinets and Related Products in 2014 decreased primarily due to lower sales volume and a less favorable product mix of North American operations, which decreased sales by nine percent compared to 2013. Such decreases more than offset increased selling prices in North America and increased sales volume and a more favorable product mix of international cabinets, which increased sales by seven percent compared to 2013.

Net sales in this segment in 2013 increased primarily due to increased sales volume of North American and International operations and by increased selling prices in North America which, in the aggregate, increased sales by 14 percent compared to 2012. Such increases were partially offset by a less favorable product mix in North America, which reduced sales in this segment by six percent.

Net sales in this segment in 2012 were positively affected by increased sales volume of North American operations and by increased selling prices.

Operating Results

Operating margins in the Cabinets and Related Products segment in 2014 were negatively affected by lower North American sales volume and the related under-absorption of fixed costs as well as increased business rationalization expenses. Operating margins were also negatively affected by a less favorable product mix. Such declines more than offset a more favorable relationship between selling prices and commodity costs and the benefits associated with business rationalization activities and other cost savings initiatives.

Operating margins in this segment in 2013 were positively affected by lower business rationalization expenses and the benefits associated with such expenses incurred in prior years. Operating margins were also positively affected by a more favorable relationship between selling prices and commodity costs, as well as increased sales volume and the related absorption of fixed costs. Such increases were partially offset by a less favorable product mix.

Operating margins in this segment in 2012 were positively affected by lower business rationalization expenses and the benefits associated with such expenses incurred in prior years.

Plumbing Products

Sales

Net sales of Plumbing Products increased in 2014 primarily due to increased sales volume of both North American and International operations, which, in aggregate, increased sales by four percent compared to 2013. This segment was also positively affected by increased selling prices of International plumbing products.

Net sales in this segment increased in 2013 primarily due to increased sales volume and increased selling prices, which, in aggregate, increased sales by eight percent compared to 2012. A weaker U.S. dollar increased sales by one percent in 2013 compared to 2012. Such increases were partially offset by the loss of a portion of our bath products business.

Net sales in this segment in 2012 were positively affected by primarily increased sales volume of North American operations and increased selling prices. Lower sales volume of international operations decreased sales in this segment.

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Operating Results

Operating margins in the Plumbing Products segment in 2014 were positively affected by increased sales volume, a more favorable relationship between selling prices and commodity costs (including the impact of the metal hedge contracts), lower business rationalization expenses and the benefits associated with business rationalization activities and other cost savings initiatives.

Operating margins in this segment in 2013 were positively affected by increased sales volume and a more favorable relationship between selling prices and commodity costs (including the impact of the metal hedge contracts), partially offset by a less favorable product mix.

Operating margins in this segment in 2012 were negatively affected by lower sales volume and a less favorable product mix principally related to International operations. Such declines more than offset increased North American sales volume and a more favorable relationship between selling prices and commodity costs.

Installation and Other Services

Sales

Net sales in the Installation and Other Services segment increased in 2014 primarily due to increased volume of distribution sales, as well as increased sales volume related to a higher level of activity in the new home construction and commercial markets, which increased sales by six percent compared to 2013. Net sales were also positively affected by increased selling prices.

Net sales in this segment increased in 2013 primarily due to increased sales volume related to a higher level of activity in the new home construction market, as well as increased selling prices. Net sales were also positively affected by increased retrofit and commercial sales.

Net sales in this segment in 2012 were positively affected by increased sales volume related to a higher level of activity in the new home construction market and increased commercial sales.

Operating Results

Operating margins in the Installation and Other Services segment in 2014 were positively affected by increased sales volume and a more favorable relationship between selling prices and commodity costs.

Operating margins in this segment in 2013 were positively affected by increased sales volume and the related absorption of fixed costs, as well as the benefits associated with business rationalizations and other cost savings initiatives. Operating margins were also positively affected by a more favorable relationship between selling prices and commodity costs.

Operating margins in this segment in 2012 were positively affected by increased sales volume and the related absorption of fixed costs, as well as the benefits associated with business rationalizations and other cost savings initiatives.

Decorative Architectural Products

Sales

Net sales of Decorative Architectural Products increased in 2014, primarily due to increased sales volume of paints and stains related to new product introductions and other growth initiatives and increased sales volume of builders' hardware, partially offset by lower selling prices of paints and stains.

Net sales in this segment increased in 2013, primarily due to increased sales volume of paints and stains and builders' hardware, partially offset by lower selling prices of paints and stains.

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Net sales in this segment in 2012 were positively affected by increased selling prices of paints and stains, as well as increased sales volume of paints and stains and builders' hardware.

Operating Results

Operating margins in the Decorative Architectural Products segment in 2014 reflect a less favorable relationship between selling prices and commodity costs, a less favorable product mix of paints and stains and costs for new product introductions and advertising. Such decreases more than offset the benefits associated with cost savings initiatives.

Operating margins in this segment in 2013 reflect the benefits of increased sales volume of paints and stains and builders' hardware. Such benefits were partially offset by a less favorable relationship between selling prices and commodity costs and increased promotional and advertising costs.

Operating margins in this segment in 2012 reflect a more favorable product mix, a more favorable relationship between selling prices and commodity costs related to paints and stains and lower program costs related to builders' hardware.

Other Specialty Products

Sales

Net sales of Other Specialty Products increased in 2014 primarily due to more favorable product mix, increased selling prices and increased sales volume of North American windows in the Western U.S. which, in the aggregate, increased sales by eight percent compared to 2013. This segment was also positively affected by a more favorable product mix and increased selling prices of our U.K. windows business, which increased sales in this segment by two percent compared to 2013. A weaker U.S. dollar increased sales by one percent in 2014 compared to 2013. Such increases were partially offset by lower sales volume and lower selling prices of staple gun tackers and other fastening tools.

Net sales in this segment increased in 2013 primarily due to increased sales volume, increased selling prices and a more favorable product mix of windows in North America which, in the aggregate, increased sales by 11 percent compared to 2012. Such increases were partially offset by lower sales volume and lower selling prices of staple gun tackers and other fastening tools.

Net sales in this segment in 2012 were affected by increased sales volume of windows in Western markets in the U.S., a more favorable product mix and increased selling prices which were offset by lower sales volume of North American windows resulting from the exit of certain markets.

Operating Results

Operating margins in the Other Specialty Products segment in 2014 reflect a more favorable relationship between selling prices and commodity costs, a more favorable product mix of U.S. and U.K. windows and increased sales volume in the western U.S. Such positive results were partially offset by lower sales volume and lower selling prices of staple gun tackers and other fastening tools.

Operating margins in this segment in 2013 reflect increased sales volume and the related absorption of fixed costs, as well as a more favorable relationship between selling prices and commodity costs. This segment also reflects the benefits associated with the business rationalizations and other cost savings initiatives. Such positive results were partially offset by lower sales volume and lower selling prices of staple gun tackers and other fastening tools.

Operating results in the Other Specialty Products segment in 2012 were positively affected by the benefits associated with business rationalizations and other cost savings initiatives, lower business rationalization costs and a more favorable relationship between selling prices and commodity costs. These items more than offset the increased warranty expense of $12 million.

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Geographic Area Results Discussion

North America

Sales

North American net sales in 2014 were positively impacted by increased sales volume of plumbing products, installation and other services, paints and stains, builders' hardware and windows which, in the aggregate, increased sales by approximately four percent compared to 2013. Net sales were also positively affected by increased selling prices of cabinets, installation and other services and windows, which increased sales by approximately two percent compared to 2013. Such increases were partially offset by lower sales volume of cabinets and lower selling prices of paints and stains.

North American net sales in 2013 were positively impacted by increased sales volume of installation and other services, plumbing products, paints and stains, windows, cabinets (such increase in cabinets was partially offset by a less favorable product mix), and builders' hardware which, in the aggregate, increased sales by approximately nine percent compared to 2012. Net sales were also positively affected by increased selling prices of cabinets, installation and other services and windows, which increased sales by approximately two percent compared to 2012. Such increases were partially offset by lower selling prices of paints and stains.

North American net sales in 2012 were positively impacted by increased sales volume of installation and other services, plumbing products, paints and stains, builders' hardware and windows, and by increased selling prices of plumbing products and paints and stains.

Operating Results

Operating margins from North American operations in 2014 were positively affected by increased sales volume, as well as a more favorable relationship between selling prices and commodity costs. North American operations were also positively affected by the benefits associated with past business rationalization and other cost savings initiatives.

Operating margins from North American operations in 2013 were positively affected by increased sales volume and the related absorption of fixed costs, as well as a more favorable relationship between selling prices and commodity costs. North American operations were also positively affected by lower business rationalization expenses and the benefits associated with business rationalization and other cost savings initiatives.

Operating margins from North American operations in 2012 were positively affected by a more favorable relationship between selling prices and commodity costs, lower business rationalization expenses and the benefits associated with business rationalization and other cost savings initiatives.

International, Principally Europe

Sales

Net sales from international operations in 2014 increased four percent in local currencies compared to 2013, primarily due to increased selling prices and sales volume for international plumbing products and a more favorable product mix of cabinets and windows. A weaker U.S. dollar increased international net sales by one percent in 2014 compared to 2013.

Net sales from international operations in 2013 increased four percent in local currencies compared to 2012, primarily due to increased sales volume of international plumbing products and cabinets and increased selling prices for International plumbing products. A weaker U.S. dollar increased International net sales by two percent in 2013 compared to 2012.

Net sales from international operations in 2012 were positively affected by increased selling prices, partially offset by lower sales volume of international plumbing products, cabinets and windows.

Operating Results

Operating margins from International operations in 2014 were positively affected by a more favorable relationship between selling prices and commodity costs, primarily related to international plumbing products.

Operating margins from International operations in 2013 were positively affected by a more favorable relationship between selling prices and commodity costs, primarily related to international plumbing products and the benefits associated with business rationalizations and other cost savings initiatives, partially offset by a less favorable product mix.

Operating margins from International operations in 2012 were negatively affected by a less favorable product mix, partially offset by a more favorable relationship between selling prices and commodity costs, primarily related to international plumbing products, the benefits associated with business rationalizations and other cost savings initiatives.

Other Matters

Commitments and Contingencies

Litigation

Information regarding our legal proceedings is set forth in Note U to the consolidated financial statements, which is incorporated herein by reference.

Other Commitments

With respect to our investments in private equity funds, we had, at December 31, 2014, commitments to contribute up to $9 million of additional capital to such funds, representing our aggregate capital commitment to such funds less capital contributions made to date. We are contractually obligated to make additional capital contributions to these private equity funds upon receipt of a capital call from the private equity fund. We have no control over when or if the capital calls will occur. Capital calls are funded in cash and generally result in an increase in the carrying value of our investment in the private equity fund when paid.

We enter into contracts, which include reasonable and customary indemnifications that are standard for the industries in which we operate. Such indemnifications include claims made against builders by homeowners for issues relating to our products and workmanship. In conjunction with divestitures and other transactions, we occasionally provide reasonable and customary indemnifications relating to various items, including: the enforceability of trademarks; legal and environmental issues; and provisions for sales returns. We have never had to pay a material amount related to these indemnifications, and we evaluate the probability that amounts may be incurred and we appropriately record an estimated liability when probable.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard for revenue recognition, Accounting Standards Codification 606 (ASC 606). The purpose of ASC 606 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across industries. ASC 606 is effective for us for annual periods beginning January 1, 2017.

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We are currently evaluating the impact the adoption of this new standard will have on our results of operations.

In April 2014, the FASB issued Accounting Standards Update 2014-8 (ASU 2014-8), "Reporting of Discontinued Operations and Disclosure of Disposals of Components of an Entity," which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. ASU 2014-8 is effective for us beginning January 1, 2015. We do not expect that the adoption will have a significant impact on our financial position or our results of operations.

Contractual Obligations

The following table provides payment obligations related to current contracts at December 31, 2014, in millions:

	Payments Due by Period					
	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years	Other (D)	Total
Debt **(A)**	$ 505	$ 1,301	$ 116	$ 1,502	$	$ 3,424
Interest **(A)**	199	286	206	526		1,217
Operating leases	92	91	31	73		287
Currently payable income taxes	24					24
Private equity funds **(B)**	5	4				9
Purchase commitments **(C)**	243	3				246
Uncertain tax positions, including interest and penalties **(D)**					48	48
Total	$ 1,068	$ 1,685	$ 353	$ 2,101	$ 48	$ 5,255

(A) We assumed that all debt would be held to maturity.

(B) There is no schedule for the capital commitments to the private equity funds; such allocation was estimated.

(C) Excludes contracts that do not require volume commitments and open or pending purchase orders.

(D) Due to the high degree of uncertainty regarding the timing of future cash outflows associated with uncertain tax positions, we are unable to make a reasonable estimate for the period beyond the next year in which cash settlements may occur with applicable tax authorities.

Refer to Note M of our financial statements for defined-benefit plan obligations.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We have considered the provisions of accounting guidance regarding disclosure of accounting policies for derivative financial instruments and derivative commodity instruments, and disclosure of quantitative and qualitative information about market risk inherent in derivative financial instruments, other financial instruments and derivative commodity instruments.

We are exposed to the impact of changes in interest rates, foreign currency exchange rates and commodity costs in the normal course of business and to market price fluctuations related to our financial investments. We have involvement with derivative financial instruments and use such instruments to the extent necessary to manage exposure to foreign currency fluctuations and commodity fluctuations. See Note F to the consolidated financial statements for additional information regarding our derivative instruments.

At December 31, 2014, we performed sensitivity analyses to assess the potential loss in the fair values of market risk sensitive instruments resulting from a hypothetical change of 10 percent in foreign currency exchange rates, a 10 percent decline in the market value of our long-term investments, a 10 percent change in commodity costs, or a 10 percent change in interest rates. Based upon the analyses performed, such changes would not be expected to materially affect our consolidated financial position, results of operations or cash flows.

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Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

The management of Masco Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Masco Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The management of Masco Corporation assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control Integrated Framework." Based on this assessment, management has determined that the Company's internal control over financial reporting was effective as of December 31, 2014.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, performed an audit of the Company's consolidated financial statements and of the effectiveness of Masco Corporation's internal control over financial reporting as of December 31, 2014. Their report expressed an unqualified opinion on the effectiveness of Masco Corporation's internal control over financial reporting as of December 31, 2014 and expressed an unqualified opinion on the Company's 2014 consolidated financial statements. This report appears under 'Item 8. Financial Statements and Supplementary Data' under the heading "Report of Independent Registered Public Accounting Firm."

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Masco Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) (1) present fairly, in all material respects, the financial position of Masco Corporation and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Detroit, Michigan
February 13, 2015

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Financial Statements and Supplementary Data

MASCO CORPORATION and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

at December 31, 2014 and 2013

	(In Millions, Except Share Data)	
	2014	**2013**
ASSETS		
Current Assets:		
Cash and cash investments	$ 1,383	$ 1,223
Short-term bank deposits	306	321
Receivables	1,040	1,004
Inventories	819	765
Deferred income taxes	244	73
Prepaid expenses and other	71	82
Total current assets	3,863	3,468
Property and equipment, net	1,139	1,252
Goodwill	1,884	1,903
Other intangible assets, net	145	149
Other assets	136	185
Total Assets	$ 7,167	$ 6,957
LIABILITIES and EQUITY		
Current Liabilities:		
Accounts payable	$ 950	$ 902
Notes payable	505	6
Accrued liabilities	756	778
Total current liabilities	2,211	1,686
Long-term debt	2,919	3,421
Other liabilities	803	666
Deferred income taxes	106	397
Total Liabilities	6,039	6,170
Commitments and contingencies		
Equity:		
Masco Corporation's shareholders' equity Common shares authorized: 1,400,000,000; issued and outstanding: 2014 345,000,000; 2013 349,500,000	345	349
Preferred shares authorized: 1,000,000; issued and outstanding: 2014 and 2013 None		
Paid-in capital		16
Retained earnings	690	79
Accumulated other comprehensive (loss) income	(111)	115
Total Masco Corporation's shareholders' equity	924	559
Noncontrolling interest	204	228

Total Equity		1,128		787
Total Liabilities and Equity	$	7,167	$	6,957

See notes to consolidated financial statements.

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MASCO CORPORATION and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2014, 2013 and 2012

	(In Millions, Except Per Common Share Data)		
	2014	**2013**	**2012**
Net sales	$ 8,521	$ 8,173	$ 7,495
Cost of sales	6,134	5,918	5,539
Gross profit	2,387	2,255	1,956
Selling, general and administrative expenses	1,607	1,582	1,535
(Income) charge for litigation settlements	(9)		77
Impairment charge for other intangible assets	1		42
Operating profit	788	673	302
Other income (expense), net:			
Interest expense	(225)	(235)	(254)
Other, net	12	12	25
	(213)	(223)	(229)
Income from continuing operations before income taxes	575	450	73
Income tax (benefit) expense	(333)	111	91
Income (loss) from continuing operations	908	339	(18)
Loss from discontinued operations, net	(5)	(10)	(61)
Net income (loss)	903	329	(79)
Less: Net income attributable to noncontrolling interest	47	41	35
Net income (loss) attributable to Masco Corporation	$ 856	$ 288	$ (114)
Income (loss) per common share attributable to Masco Corporation:			
Basic:			
Income (loss) from continuing operations	$ 2.42	$ .83	$ (.16)
Loss from discontinued operations, net	(.01)	(.03)	(.17)
Net income (loss)	$ 2.40	$ .80	$ (.33)
Diluted:			
Income (loss) from continuing operations	$ 2.39	$ .83	$ (.16)
Loss from discontinued operations, net	(.01)	(.03)	(.17)
Net income (loss)	$ 2.38	$ .80	$ (.33)

Amounts attributable to Masco Corporation:						
Income (loss) from continuing operations	$	861	$	298	$	(53)
Loss from discontinued operations, net		(5)		(10)		(61)
Net income (loss)	$	856	$	288	$	(114)

See notes to consolidated financial statements.

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MASCO CORPORATION and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

for the years ended December 31, 2014, 2013 and 2012

			(In Millions)
	2014	**2013**	**2012**
Net income (loss)	$ 903	$ 329	$ (79)
Less: Net income attributable to noncontrolling interest	47	41	35
Net income (loss) attributable to Masco Corporation	$ 856	$ 288	$ (114)
Other comprehensive income (loss), net of tax (see Note O):			
Cumulative translation adjustment	$ (124)	$ (75)	$ 28
Interest rate swaps	1	2	2
Unrecognized pension prior service cost and net gain (loss)	(140)	138	(45)
Other comprehensive income (loss)	(263)	65	(15)
Less: Other comprehensive income (loss) attributable to the noncontrolling interest:			
Cumulative translation adjustment	$ (31)	$ 8	$ 9
Unrecognized pension prior service cost and net gain (loss)	(6)	1	(7)
	(37)	9	2
Other comprehensive income (loss) attributable to Masco Corporation	$ (226)	$ 56	$ (17)
Total comprehensive income (loss)	$ 640	$ 394	$ (94)
Less: Total comprehensive income attributable to noncontrolling interest	10	50	37
Total comprehensive income (loss) attributable to Masco Corporation	$ 630	$ 344	$ (131)

See notes to consolidated financial statements.

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MASCO CORPORATION and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2014, 2013 and 2012

(In Millions)

	2014	2013	2012
CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:			
Net income (loss)	$ 903	$ 329	$ (79)
Depreciation and amortization	167	186	214
Deferred income taxes	(406)	42	50
Non-cash loss on disposition of businesses, net	2	15	4
(Gain) on disposition of investments, net	(2)	(10)	(24)
Impairment charges:			
Financial investments			2
Other intangible assets	1		42
Discontinued operations		10	3
Property and equipment, net	27		
Stock-based compensation	47	54	61
Other items, net	(44)	(19)	(28)
Increase in receivables	(81)	(85)	(50)
Increase in inventories	(75)	(24)	(16)
Increase in accounts payable and accrued liabilities, net	63	147	102
Net cash from operating activities	602	645	281
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:			
Increase in debt	4	3	4
Payment of debt	(6)	(5)	(5)
Issuance of Company common stock	1		
Tax benefit from stock-based compensation	13		
Purchase of Company common stock	(158)	(35)	(8)
Dividends paid to noncontrolling interest	(34)	(34)	(40)
Cash dividends paid	(117)	(107)	(107)
Issuance of notes, net of issuance costs			396
Credit Agreement costs		(4)	
Retirement of Notes		(200)	(791)
Payment for settlement of swaps			(25)
Net cash for financing activities	(297)	(382)	(576)
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:			
Capital expenditures	(128)	(126)	(119)
Acquisition of businesses, net of cash acquired	(2)	(7)	
Proceeds from disposition of:			
Short-term bank deposits	379	411	430
Businesses, net of cash disposed		17	9
Property and equipment	16	27	67
Other financial investments	64	16	43
Purchases of:			
Other financial investments	(1)	(1)	(3)
Short-term bank deposits	(399)	(409)	(432)
Other, net	(29)	(5)	(24)

Net cash for investing activities	(100)	(77)	(29)
Effect of exchange rate changes on cash and cash investments	(45)	(3)	11
CASH AND CASH INVESTMENTS:			
Increase (decrease) for the year	160	183	(313)
At January 1	1,223	1,040	1,353
At December 31	$ 1,383	$ 1,223	$ 1,040

See notes to consolidated financial statements.

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MASCO CORPORATION and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

for the years ended December 31, 2014, 2013 and 2012

(In Millions, Except Per Share Data)

	Total	Common Shares ($1 par value)	Paid-In Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest
Balance, January 1, 2012	$ 750	$ 348	$ 65	$ 46	$ 76	$ 215
Total comprehensive (loss) income	(94)			(114)	(17)	37
Shares issued	(1)	3	(4)			
Shares retired:						
Repurchased	(8)	(1)	(7)			
Surrendered (non-cash)	(8)	(1)	(7)			
Cash dividends declared	(107)		(81)	(26)		
Dividends paid to noncontrolling interest	(40)					(40)
Stock-based compensation	50		50			
Balance, December 31, 2012	$ 542	$ 349	$ 16	$ (94)	$ 59	$ 212
Total comprehensive income	394			288	56	50
Shares issued	(8)	3	(11)			
Shares retired:						
Repurchased	(35)	(2)	(11)	(22)		
Surrendered (non-cash)	(12)	(1)	(11)			
Cash dividends declared	(107)		(14)	(93)		
Dividends paid to noncontrolling interest	(34)					(34)
Stock-based compensation	47		47			
Balance, December 31, 2013	$ 787	$ 349	$ 16	$ 79	$ 115	$ 228
Total comprehensive income (loss)	640			856	(226)	10
Shares issued	(6)	3	(9)			
Shares retired:						
Repurchased	(158)	(7)	(28)	(123)		
Surrendered (non-cash)	(15)		(15)			
Cash dividends declared	(122)			(122)		
Dividends paid to noncontrolling interest	(34)					(34)
Stock-based compensation	36		36			
Balance, December 31, 2014	$ 1,128	$ 345	$	$ 690	$ (111)	$ 204

See notes to consolidated financial statements.

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MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include the accounts of Masco Corporation and all majority-owned subsidiaries. All significant intercompany transactions have been eliminated. We consolidate the assets, liabilities and results of operations of variable interest entities, for which we are the primary beneficiary.

Use of Estimates and Assumptions in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any 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 may differ from these estimates and assumptions.

Revenue Recognition. We recognize revenue as title to products and risk of loss is transferred to customers or when services are rendered, net of applicable provisions for discounts, returns and allowances. We record revenue for unbilled services performed based upon material and labor incurred in the Installation and Other Services segment; such amounts are recorded in receivables. Amounts billed for shipping and handling are included in net sales, while costs incurred for shipping and handling are included in cost of sales.

Customer Promotion Costs. We record estimated reductions to revenue for customer programs and incentive offerings, including special pricing and co-operative advertising arrangements, promotions and other volume-based incentives. In-store displays that are owned by us and used to market our products are included in other assets in the consolidated balance sheets and are amortized using the straight-line method over the expected useful life of three to five years; related amortization expense is classified as a selling expense in the consolidated statements of operations.

Foreign Currency. The financial statements of our foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates in effect during the year. The resulting cumulative translation adjustments have been recorded in the accumulated other comprehensive (loss) income component of shareholders' equity. Realized foreign currency transaction gains and losses are included in the consolidated statements of operations in other income (expense), net.

Cash and Cash Investments. We consider all highly liquid investments with an initial maturity of three months or less to be cash and cash investments.

Short-Term Bank Deposits. We invest a portion of our foreign excess cash in short-term bank deposits. These highly liquid investments have original maturities between three and twelve months and are valued at cost, which approximates fair value at December 31, 2014 and 2013. These short-term bank deposits are classified in the current assets section of our consolidated balance sheets, and interest income related to short-term bank deposits is recorded in our consolidated statements of operations in other income (expense), net.

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MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A. ACCOUNTING POLICIES (Continued)

Receivables. We do significant business with a number of customers, including certain home centers and homebuilders. We monitor our exposure for credit losses on our customer receivable balances and the credit worthiness of our customers on an on-going basis and record related allowances for doubtful accounts. Allowances are estimated based upon specific customer balances, where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical collection, return and write-off activity. During downturns in our markets, declines in the financial condition and creditworthiness of customers impacts the credit risk of the receivables involved and we have incurred additional bad debt expense related to customer defaults. A separate allowance is recorded for customer incentive rebates and is generally based upon sales activity. Receivables are presented net of certain allowances (including allowances for doubtful accounts) of $48 million and $57 million at December 31, 2014 and 2013, respectively. Receivables include unbilled revenue related to the Installation and Other Services segment of $24 million at both December 31, 2014 and 2013.

Property and Equipment. Property and equipment, including significant betterments to existing facilities, are recorded at cost. Upon retirement or disposal, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statements of operations. Maintenance and repair costs are charged against earnings as incurred.

We review our property and equipment as an event occurs or circumstances change that would more likely than not reduce the fair value of the property and equipment below the carrying amount. If the carrying amount of property and equipment is not recoverable from its undiscounted cash flows, then we would recognize an impairment loss for the difference between the carrying amount and the current fair value. Further, we evaluate the remaining useful lives of property and equipment at each reporting period to determine whether events and circumstances warrant a revision to the remaining depreciation periods.

Depreciation. Depreciation expense is computed principally using the straight-line method over the estimated useful lives of the assets. Annual depreciation rates are as follows: buildings and land improvements, 2 to 10 percent, and machinery and equipment, 5 to 33 percent. Depreciation expense was $157 million, $175 million and $192 million in 2014, 2013 and 2012, respectively. Such depreciation expense included accelerated depreciation of $1 million (in the Cabinets and Related Products segment), $13 million (primarily in the Cabinets and Related Products and Plumbing Products segments) and $28 million (primarily in the Cabinets and Related Products and Plumbing Products segment) in 2014, 2013 and 2012, respectively.

Goodwill and Other Intangible Assets. We perform our annual impairment testing of goodwill in the fourth quarter of each year, or as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We have defined our reporting units and completed the impairment testing of goodwill at the operating segment level. Our operating segments are reporting units that engage in business activities, for which discrete financial information, including five-year forecasts, are available. We compare the fair value of the reporting units to the carrying value of the reporting units for goodwill impairment testing. Fair value is determined using a discounted cash flow method, which includes significant unobservable inputs (Level 3 inputs).

Determining market values using a discounted cash flow method requires us to make significant estimates and assumptions, including long-term projections of cash flows, market conditions and

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MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A. ACCOUNTING POLICIES (Continued)

appropriate discount rates. Our judgments are based upon historical experience, current market trends, consultations with external valuation specialists and other information. In estimating future cash flows, we rely on internally generated five-year forecasts for sales and operating profits, including capital expenditures, and generally a one to three percent long-term assumed annual growth rate of cash flows for periods after the five-year forecast. We utilize our weighted average cost of capital of approximately 9 percent as the basis to determine the discount rate to apply to the estimated future cash flows. Our weighted average cost of capital decreased in 2014 due to lower bond rates. In 2014, based upon our assessment of the risks impacting each of our businesses, we applied a risk premium to increase the discount rate to a range of 11.0 percent to 14.0 percent for our reporting units.

If the carrying amount of a reporting unit exceeds its fair value, we measure the possible goodwill impairment based upon an allocation of the estimate of fair value of the reporting unit to all of the underlying assets and liabilities of the reporting unit, including any previously unrecognized intangible assets (Step Two Analysis). The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized to the extent that a reporting unit's recorded goodwill exceeds the implied fair value of goodwill.

We review our other indefinite-lived intangible assets for impairment annually in the fourth quarter of each year, or as events occur or circumstances change that indicate the assets may be impaired without regard to the business unit. We consider the implications of both external (e.g., market growth, competition and local economic conditions) and internal (e.g., product sales and expected product growth) factors and their potential impact on cash flows related to the intangible asset in both the near- and long-term.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. We evaluate the remaining useful lives of amortizable intangible assets at each reporting period to determine whether events and circumstances warrant a revision to the remaining periods of amortization. See Note H for additional information regarding Goodwill and Other Intangible Assets.

Fair Value Accounting. We follow accounting guidance for our financial investments and liabilities which defines fair value, establishes a framework for measuring fair value and prescribes disclosures about fair value measurements. We also follow this guidance for our non-financial investments and liabilities.

The fair value of financial investments and liabilities is determined at each balance sheet date and future declines in market conditions, the future performance of the underlying investments or new information could affect the recorded values of our investments in marketable securities, private equity funds and other private investments.

We use derivative financial instruments to manage certain exposure to fluctuations in earnings and cash flows resulting from changes in foreign currency exchange rates, commodity costs and interest rate exposures. Derivative financial instruments are recorded in the consolidated balance sheets as either an asset or liability measured at fair value, netted by counterparty, where the right of offset exists. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in determining current earnings during the period of the change in fair value.

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MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A. ACCOUNTING POLICIES (Continued)

Warranty. At the time of sale, we accrue a warranty liability for the estimated cost to provide products, parts or services to repair or replace products in satisfaction of warranty obligations. Our estimate of costs to service our warranty obligations is based upon the information available and includes a number of factors such as the warranty coverage, the warranty period, historical experience specific to the nature, frequency and average cost to service the claim, along with product manufacturing metrics and industry and demographic trends.

Certain factors and related assumptions in determining our warranty liability involve judgments and estimates and are sensitive to changes in the aforementioned factors. We believe that the warranty accrual is appropriate; however, actual claims incurred could differ from the original estimates thereby requiring adjustments to previously established accruals.

A majority of our business is at the consumer retail level through home centers and major retailers. A consumer may return a product to a retail outlet that is a warranty return. However, certain retail outlets do not distinguish between warranty and other types of returns when they claim a return deduction from us. Our revenue recognition policy takes into account this type of return when recognizing revenue, and deductions are recorded at the time of sale.

Insurance Reserves. We provide for expenses associated with workers' compensation and product liability obligations when such amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change that would affect the estimated liability.

Stock-Based Compensation. We measure compensation expense for stock awards at the market price of our common stock at the grant date. Such expense is recognized ratably over the shorter of the vesting period of the stock awards, typically 5 to 10 years, or the length of time until the grantee becomes retirement-eligible at age 65.

We measure compensation expense for stock options using a Black-Scholes option pricing model. Such expense is recognized ratably over the shorter of the vesting period of the stock options, typically five years, or the length of time until the grantee becomes retirement-eligible at age 65. We utilize the shortcut method to determine the tax windfall pool associated with stock options.

Noncontrolling Interest. We own 68 percent of Hansgrohe SE at both December 31, 2014 and 2013. The aggregate noncontrolling interest, net of dividends, at December 31, 2014 and 2013 has been recorded as a component of equity on our consolidated balance sheets.

Interest and Penalties on Uncertain Tax Positions. We record interest and penalties on our uncertain tax positions in income tax expense.

Reclassifications. Certain prior year amounts have been reclassified to conform to the 2014 presentation in the consolidated financial statements. In our consolidated statements of cash flows, the cash flows from discontinued operations are not separately classified.

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MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A. ACCOUNTING POLICIES (Continued)

Revision of Previously Issued Financial Statements. During the fourth quarter ended December 31, 2014, we identified an error related to the classification of our insurance reserves. We have revised previously reported balances on our consolidated balance sheet as of December 31, 2013 to correct for claims not expected to be settled within the next year. Accrued liabilities decreased from the amounts previously reported by $96 million. Other liabilities increased from the amounts previously reported by $96 million. This revision had no effect on our consolidated statements of operations or consolidated statements of cash flows. This error is not considered material to any prior period financial statement.

During the quarter ended March 31, 2014, we identified an error in the accounting for certain of our investments in private equity limited partnership funds. The investments were inappropriately accounted for under the cost basis versus the equity method. The impact of the error was to under report the investment value (included in other assets on the consolidated balance sheets) and to over (under) state equity investment earnings (loss) (included in other income (expense), net in the consolidated statements of operations). We have revised our December 31, 2013 and 2012 consolidated statement of operations and consolidated balance sheet as of December 31, 2013 in these financial statements to reflect the investment accounted for as an equity investment. Retained earnings and other comprehensive income were adjusted for the changes in net income. This error is not considered material to any prior period financial statement.

This revision has no net effect on our consolidated statement of cash flows.

The following table presents the impact of the revisions on our previously issued full-year consolidated statements of operations (in millions):

	2013	2012
Other income (expense), net		
As reported	$ (239)	$ (229)
Correction	16	
As revised	$ (223)	$ (229)
Income (loss) from continuing operations, before income taxes		
As reported	$ 434	$ 73
Correction	16	
As revised	$ 450	$ 73
Income (loss) from continuing operations		
As reported	$ 323	$ (18)
Correction	16	
As revised	$ 339	$ (18)
Net income (loss)		
As reported	$ 313	$ (79)
Correction	16	

As revised	$ 329	$ (79)

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MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A. ACCOUNTING POLICIES (Concluded)

The following table presents the impact of the revisions on our previously issued consolidated balance sheet (in millions):

	At December 31, 2013	
Other assets		
As reported	$	161
Correction		24
As revised	$	185
Total assets		
As reported	$	6,933
Correction		24
As revised	$	6,957

Recently Issued Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard for revenue recognition, Accounting Standards Codification 606 (ASC 606). The purpose of ASC 606 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across industries. ASC 606 is effective for us for annual periods beginning January 1, 2017. We are currently evaluating the impact the adoption of this new standard will have on our results of operations.

In April 2014, the FASB issued Accounting Standards Update 2014-8 (ASU 2014-8), "Reporting of Discontinued Operations and Disclosure of Disposals of Components of an Entity," which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. ASU 2014-8 is effective for us beginning January 1, 2015. We do not expect that the adoption will have a significant impact on our financial position or results of operations.

B. DISCONTINUED OPERATIONS

The presentation of discontinued operations includes components that we intend to sell, which comprises operations and cash flows that can be clearly distinguished from us.

On September 30, 2014, we announced a plan to spin off 100 percent of our Installation and Other Services businesses into an independent, publicly-traded company through a tax-free stock distribution to our shareholders. The transaction is expected to be completed in mid-2015. Through December 31, 2014, we have incurred $6 million of costs and charges related to this transaction. Under generally accepted accounting principles, the Installation and Other Services businesses are included in continuing operations until the transaction is completed.

In February 2013, we determined that Tvilum, our Danish ready-to-assemble cabinet business, was no longer core to our long-term growth strategy and, accordingly, we embarked on a plan for disposition. In December 2013, we completed the disposition of this business and a related Danish holding company for net proceeds of $17 million.

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

B. DISCONTINUED OPERATIONS (Concluded)

We have accounted for Tvilum as a discontinued operation. Losses from this discontinued operation were included in loss from discontinued operations, net, in the consolidated statements of operations.

Selected financial information for the discontinued operations during the period owned by us, were as follows, in millions:

	2014	2013	2012
Net sales	$	$ 265	$ 321
Operating loss from discontinued operations	$	$ (7)	$ (44)
Impairment of assets held for sale		(10)	(3)
(Loss) gain on disposal of discontinued operations, net	(6)	3	(6)
Loss before income tax	(6)	(14)	(53)
Income tax (benefit) expense	(1)	(4)	8
Loss from discontinued operations, net	$ (5)	$ (10)	$ (61)

Included in (loss) gain on disposal of discontinued operations, net in 2014 are additional costs and charges related to the 2013 sale of Tvilum.

Included in impairment of assets held for sale in 2013 is the impairment of fixed assets. During 2013, we estimated the fair value of the business held for sale, using unobservable inputs (Level 3). After considering the currency translation gains reported in accumulated other comprehensive (loss) income, we recorded an impairment of $10 million in 2013.

In 2013, in conjunction with the transaction to sell Tvilum (included in discontinued operations), we also disposed of a non-operating entity in Denmark. This disposition triggered the settlement of loans, which resulted in the recognition of $18 million of currency translation expense, which is included in other income (expense), net from continuing operations in the consolidated statements of operations.

The unusual relationship between income tax expense and loss before income tax in 2012 resulted primarily from the increase in the deferred tax liability associated with the abandonment of tax basis in indefinite-lived intangibles due to the disposition of certain discontinued operations.

In the fourth quarter of 2012, we determined that the estimated fair value calculated for Tvilum was lower than the net book value. We assessed the long-lived assets associated with this business unit and determined that no impairment was necessary at December 31, 2012.

C. ACQUISITIONS

In the first quarter of 2013, we acquired a small U.K. door business in the Other Specialty Products segment. The total net cash purchase price was $4 million in 2013.

The results of this acquisition are included in the consolidated financial statements from the respective date of acquisition.

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MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

D. INVENTORIES

	(In Millions) At December 31	
	2014	**2013**
Finished goods	$ 425	$ 398
Raw material	294	268
Work in process	100	99
Total	$ 819	$ 765

Inventories, which include purchased parts, materials, direct labor and applied manufacturing overhead, are stated at the lower of cost or net realizable value, with cost determined by use of the first-in, first-out method.

E. FAIR VALUE OF FINANCIAL INVESTMENTS AND LIABILITIES

Accounting Policy. We follow accounting guidance that defines fair value, establishes a framework for measuring fair value and prescribes disclosures about fair value measurements for its financial investments and liabilities. The guidance defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Further, it defines a fair value hierarchy, as follows: Level 1 inputs as quoted prices in active markets for identical assets or liabilities; Level 2 inputs as observable inputs other than Level 1 prices, such as quoted market prices for similar assets or liabilities or other inputs that are observable or can be corroborated by market data; and Level 3 inputs as unobservable inputs that are supported by little or no market activity and that are financial instruments whose value is determined using pricing models or instruments for which the determination of fair value requires significant management judgment or estimation.

Financial investments that are available to be traded on readily accessible stock exchanges (domestic or foreign) are considered to have active markets and have been valued using Level 1 inputs. Financial investments that are not available to be traded on a public market or have limited secondary markets, or contain provisions that limit the ability to sell the investment are considered to have inactive markets and have been valued using Level 2 or 3 inputs. We incorporated credit risk into the valuations of financial investments by estimating the likelihood of non-performance by the counterparty to the applicable transactions. The estimate included the length of time relative to the contract, financial condition of the counterparty and current market conditions. The criteria for determining if a market was active or inactive were based on the individual facts and circumstances.

Financial Investments. We have maintained investments in available-for-sale securities, equity method investments, and a number of private equity funds and other private investments, principally as part of our tax planning strategies, as any gains enhance the utilization of any current and future tax capital losses.

MASCO CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

E. FAIR VALUE OF FINANCIAL INVESTMENTS AND LIABILITIES (Continued)

Financial investments included in other assets were as follows, in millions:

	At December 31	
	2014	2013
Auction rate securities	$ 22	$ 22
Total recurring investments	22	22
Equity method investments	11	70
Private equity funds	14	18
Other investments	3	3
Total	$ 50	$ 113