

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

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[PART IV](#)

[Table of Contents](#)

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 (State of Incorporation)	38-1794485 (I.R.S. Employer Identification No.)
21001 Van Born Road, Taylor, Michigan (Address of Principal Executive Offices)	48180 (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 Securities Registered Pursuant to Section 12(g) of the Act:	New York Stock Exchange, Inc.
None	

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

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 No

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

Indicate by check mark 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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.

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

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Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting company

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

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.

Table of Contents

Masco Corporation
2014 Annual Report on Form 10-K

TABLE OF CONTENTS

Item	Page
<u>PART I</u>	
<u>1. Business</u>	<u>2</u>
<u>1A. Risk Factors</u>	<u>8</u>
<u>1B. Unresolved Staff Comments</u>	<u>14</u>
<u>2. Properties</u>	<u>15</u>
<u>3. Legal Proceedings</u>	<u>15</u>
<u>4. Mine Safety Disclosures</u>	<u>15</u>
<u>PART II</u>	
<u>5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>16</u>
<u>6. Selected Financial Data</u>	<u>18</u>
<u>7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>8. Financial Statements and Supplementary Data</u>	<u>39</u>
<u>9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>85</u>
<u>9A. Controls and Procedures</u>	<u>85</u>
<u>9B. Other Information</u>	<u>85</u>
<u>PART III</u>	
<u>10. Directors, Executive Officers and Corporate Governance</u>	<u>86</u>
<u>11. Executive Compensation</u>	<u>86</u>
<u>12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>86</u>
<u>13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>86</u>
<u>14. Principal Accounting Fees and Services</u>	<u>86</u>
<u>PART IV</u>	
<u>15. Exhibits and Financial Statement Schedule</u>	<u>87</u>
<u>Signatures</u>	<u>88</u>

Table of Contents

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

Table of Contents

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

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- (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.

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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.

Table of Contents

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®, HANSGRÖHE®, 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.

Table of Contents

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

Table of Contents

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,

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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

Table of Contents

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. Expectatio