MASCO CORP /DE/
Form 10-K
February 15, 2013
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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, 2012 **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 ¨

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 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 ¨

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 ¨

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 ¨	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 þ

The aggregate market value of the Registrant s Common Stock held by non-affiliates of the Registrant on June 29, 2012 (based on the closing sale price of $13.87 of the Registrant s Common Stock, as reported by the New York Stock Exchange on such date) was approximately $4,812,763,000.

Number of shares outstanding of the Registrant s Common Stock at January 31, 2013:

356,567,300 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 2013 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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Masco Corporation

2012 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 one of the largest installers of insulation for new home construction. 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 78 percent of our 2012 sales were generated by our North American operations.

In 2012, new home construction increased approximately 25 percent; however, with the significant decline in new home construction over the past several years, the demand for new homes remains below the historic average. Consumer spending for big ticket home improvements continued to be depressed during the year. Additionally, we experienced a negative mix shift for certain products, with consumers demanding more value-priced products. All of these factors continue to impact our results.

Throughout 2012, we have pursued four strategic initiatives to improve our performance. First, we are extending and expanding our product leadership positions by leveraging our brands and introducing innovative new and improved products. We are gaining share in our North American plumbing business with our DELTA®, PEERLESS®, and BRIZO® brands, and internationally with our Hansgrohe® products. We continued to extend the Delta and Peerless brands to additional product categories, introducing toilets in 2012, and we also pursued international opportunities for these brands. In 2012, Masco Contractor Services achieved share gains in insulation for new home construction, retrofit and commercial channels. Behr® paint experienced growth in the Pro® paint segment, and is pursuing international opportunities. Milgard, our manufacturer of windows in the western U.S., and our U.K. Window Group continue to gain share in their markets.

Our second strategic initiative is to improve our performance by reducing costs, primarily through supply chain savings, and implementing lean principles and production process improvements. Over the last several years, we have closed 33 facilities and reduced headcount by over 31,000, enabling us to achieve significant fixed cost reductions. We have improved our global supply chain by leveraging our size to realize purchasing cost savings, simplifying the purchasing process, and coordinating logistical operations. At several of our businesses, we have implemented new ERP systems to improve operations, including customer service and inventory management, and to reduce costs.

Our third strategic initiative is to improve our under-performing businesses, particularly our Cabinet and Installation businesses, which were impacted by the downturn in new home construction and the reduced consumer spending for big ticket home improvement items. While our Cabinet businesses, including our European operations, continue to experience challenges, in 2012 this segment significantly reduced its operating losses compared to 2011. In our Installation segment, we experienced significant operating profit improvement in 2012, generated by incremental new home construction activity, cost reductions from lean processes, leveraging of our new ERP system, and supply chain savings.

Our fourth strategic initiative is strengthening our balance sheet through net debt reduction and maintaining strong liquidity. This year, we reduced our debt by approximately $400 million through the retirement of notes due in July. We had approximately $1.4 billion of cash at December 31, 2012.

We believe that we have managed our businesses successfully through the economic crisis and subsequent recession of recent years. We believe that our focus on our strategic initiatives of expanding our market leadership positions, reducing costs, improving our underperforming businesses

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and strengthening our balance sheet will improve our performance and position us well as the economy recovers.

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, 2012. 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, 2012, is set forth in Note O to our consolidated financial statements included in Item 8 of this Report.

			(In Millions)
		Net Sales (1)	
	2012	2011	2010
Cabinets and Related Products	$ 1,189	$ 1,231	$ 1,464
Plumbing Products	2,955	2,913	2,692
Installation and Other Services	1,209	1,077	1,041
Decorative Architectural Products	1,818	1,670	1,693
Other Specialty Products	574	576	596
Total	$ 7,745	$ 7,467	$ 7,486

		Operating Profit (Loss) (1)(2)(3)(4)	
	2012	2011	2010
Cabinets and Related Products	$ (120)	$ (206)	$ (250)
Plumbing Products	307	322	331
Installation and Other Services	(19)	(79)	(798)
Decorative Architectural Products	329	196	345
Other Specialty Products	(31)	(401)	19
Total	$ 466	$ (168)	$ (353)

(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 net charges of $77 million regarding the 2012 litigation settlement, primarily in the Installation and Other Services segment and $9 million regarding the 2011 litigation settlements in the Cabinets and Related Products and the Other Specialty Products segments.

(4) Operating profit (loss) includes impairment charges for goodwill and other intangible assets as follows: For 2012 Other Specialty Products $42 million. For 2011 Cabinets and Related Products $44 million; Plumbing Products $1 million; Decorative Architectural Products $75 million; and Other Specialty Products $374 million. For 2010 Plumbing Products $1 million; and Installation and Other Services $697 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.

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

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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 Europe, we manufacture and sell assembled and ready-to-assemble kitchen, bath, storage, home office and home entertainment cabinetry. These products are sold in the United States and in Europe under a number of trademarks. Our KRAFTMAID® and TVILUM® brands are sold primarily to dealers, home centers and mass merchants and our MERILLAT®, MOORES and QUALITY CABINETS brands are sold primarily to distributors 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.

New home construction has declined significantly over the past several years, and our Cabinet segment has been particularly affected by this downturn. This segment has also been negatively affected by a downturn in repair and remodel, particularly by consumers who continue to defer expenditures for big-ticket items and, when purchasing, are demanding more value-priced products. Although home construction is improving and is expected to continue to improve, the demand for new homes remains below the historic average. The size of new homes has decreased 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. Further, consumer spending for big ticket home improvements continues to be depressed. In response, we have implemented a strategy to increase our sales in this segment through brand building, new product introductions and product innovation. We have also reviewed our cost structure, which resulted in the closure of several manufacturing plants in this segment and exited our North American ready-to-assemble cabinet product line. Additionally, we continue to focus on improving cabinet production efficiencies at lower volumes.

The cabinet manufacturing industry in the United States and Europe is highly competitive, with several large competitors and numerous local and regional competitors. In recent years, we have experienced significant competition in the form of promotional pricing, discounts, and new product offerings by our competitors, which have impacted the segment s results of operations. We are also experiencing significant competition from foreign manufacturers, particularly in our European cabinet operations. 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 and Fortune Brands Home & Security, Inc.

Plumbing Products

The businesses in our Plumbing Products segment sell a wide variety of faucet 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®, NEWPORT BRASS®, ALSONS® and PLUMB SHOP®. Our products include single-handle and double-handle faucets, showerheads, handheld showers and valves, and, in 2012, we introduced 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.

Other plumbing products manufactured and sold by us include products branded as AQUA GLASS®, MIROLIN® and AMERICAN SHOWER & BATH such brands use innovex acrylic and gelcoat for tub and shower systems, bath and shower enclosure units, shower trays and laundry tubs, which are sold primarily to wholesale plumbing distributors and home center retailers for home improvement and new home construction in North America. Our spas are manufactured and sold under HOT SPRING®, CALDERA® and other trademarks directly to independent dealers. Major competitors include Kohler, Aquatic, Maax and Jacuzzi. We sell HÜPPE® shower enclosures through

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wholesale channels primarily in Western Europe. HERITAGE ceramic and acrylic bath fixtures and faucets are principally sold in the United Kingdom directly to selected retailers.

Also included in the 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 the BRASSCRAFT® and BRASSTECH® trademarks and for the do-it-yourself consumers under the BRASSCRAFT MASTER PLUMBER® and PLUMB SHOP® 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, Kohler, Moen and Pfister as major brand competitors. We also have several European competitors, primarily in Germany, including Friedrich Grohe. 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 pressures on price, particularly in the emerging markets we are entering. The businesses in our Plumbing Products segment source products from Asia and manufacture products in the United States, Europe and Asia. Certain businesses in our Plumbing Product segment are also experiencing a shift in the mix of products we sell toward more value-priced or opening price point products, which impacts our profitability. 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 encountered price volatility for brass, brass components and any components containing copper and zinc; therefore, we have implemented a hedging strategy to minimize the impact of this volatility. Legislation enacted in California, Vermont and Maryland mandates new standards for acceptable lead content in plumbing products sold in those states. Federal legislation mandating a national standard for lead content in plumbing products will become effective in January 2014. Faucet and water supply valve manufacturers, including our plumbing product companies, will be required to obtain adequate supplies of lead-free brass or suitable alternative materials for continued production of faucets and certain of our plumbing products. Over the last several years, our Delta Faucet business introduced the DIAMOND SEAL TECHNOLOGY, which reduces the number of potential leak points in a faucet, simplifies installation and satisfies legislation regarding the acceptable lead content in plumbing products.

Installation and Other Services

Our Installation and Other Services segment sells installed building products and distributes building products primarily to the new home construction market, and, to a lesser extent, the retrofit and commercial construction markets, 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 eleven percent, nine percent and nine percent of our consolidated net sales in 2012, 2011 and 2010, respectively. Installed building products are supplied primarily to custom and production homebuilders by our network of branches located across the United States. Our distributed products include insulation, insulation accessories, roofing and gutters, among others. Distributed products are sold primarily to contractors and dealers (including lumber yards) from distribution centers in various parts of the United States.

There has been a significant decrease in demand in the new home construction industry over the past several years. Additionally, the size of new homes has decreased, and demand has increased for multi-family housing units such as apartments and condominiums, which are often smaller than single-family housing units. The effect of these trends has resulted in the use of less insulation. In response, we have expanded our ability to serve the residential retrofit and light commercial markets. Within the Installation and Other Services segment, we have several initiatives related to improved residential energy efficiency, including retrofit installation services (primarily insulation) delivered directly to homeowners, 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 the largest national provider of installed insulation in the new home construction industry in the United States. Our competitors include 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.

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 BEHR® and KILZ® to do-it-yourself and professional customers through home centers, paint stores and other retailers. Net sales of architectural coatings comprised approximately 20 percent of our consolidated net sales in each of 2012, 2011 and 2010. Competitors in the architectural coatings market include large national and international brands such as Benjamin Moore, Glidden, Olympic, 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 2012, we enhanced our paint formulations with a zero-VOC PREMIUM PLUS® paint and greater stain-blocking properties in our PREMIUM PLUS ULTRA® paint.

Our BEHR products are 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 industry has experienced cost increases for titanium dioxide as a result of surges in global demand and production capacity limitations, which has impacted 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.

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 wholesale markets. 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, under the MILGARD® brand name for home improvements 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, related products and components under several brand names including GRIFFIN , CAMBRIAN , PREMIER and DURAFLEX .

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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 is based largely on customer service and product quality.

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.

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, 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, 2012, we employed approximately 30,000 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.

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.

A significant portion of our business relies on home improvement and new home construction activity, both of which remain at low levels.

A significant portion of our business relies on home improvement (including repair and remodel) and new home construction activity, principally in North America and Europe. The economic decline in the past four years adversely affected our home improvement businesses. Persistent low levels of consumer confidence and depressed home prices, and elevated levels of unemployment and underemployment, have limited consumers discretionary spending and have made consumers reluctant to make investments in existing homes, including large kitchen and bath remodeling projects. The significant number of households with negative equity in their homes, and more conservative residential lending practices for home equity loans often used to finance repairs and remodeling, have limited the ability of consumers to finance home improvements. Additionally, sales of existing homes, which significantly impact our home improvement business, continue to be below normal levels. New home construction is cyclical in nature. Although home construction is improving and is expected to continue to improve, the demand for new homes remains below the historic average, and stringent standards continue to be imposed on homebuyers seeking financing.

We cannot predict the type or timing of a recovery in home improvement, nor the strength of a recovery in new home construction. Depressed consumer spending for home improvements and continued below-normal levels of new home construction may adversely affect our results of operations and our financial position.

Continued uncertainty regarding an economic recovery could result in our taking additional significant non-cash charges, which may reduce our financial resources and flexibility and could negatively affect our earnings and reduce shareholders equity.

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. In recent years, we have recorded significant non-cash impairment charges for financial investments, goodwill and other intangible assets. We have also recorded valuation allowances related to our deferred tax assets. A further decline in the expectation of our future performance, or a further deterioration in expectations regarding the timing and the extent of the recovery of new home construction and home improvement, may cause us to recognize additional non-cash, pre-tax impairment charges for goodwill and other indefinite-lived intangible assets or other long-lived assets, which are not determinable at this time. If the value of goodwill or other intangible assets is impaired, our earnings and shareholders equity would be adversely affected.

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. In the past 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.

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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 our new or improved products do not gain widespread acceptance, we could lose share, which could negatively impact our operating results.

Further, the volatile and 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. Such shifts have altered the quantity, type and prices of products demanded by the end-consumer and our customers. For example, the size of new homes has decreased, and demand has increased for multi-family housing units such as apartments and condominiums, which are often smaller than single-family housing units. The effect of these trends has resulted in smaller kitchens and smaller and fewer bathrooms, each with fewer cabinets and faucets, as well as the use of less insulation. We have experienced a negative mix shift for certain products, with consumers demanding more value-priced products and fewer higher margin products. All of these shifts have negatively impacted our sales and profitability, and it is uncertain whether these shifts represent long-term changes in consumer preferences.

Consumers are increasingly using the internet and mobile technology to research home improvement products and enhance their purchasing and ownership experience for these products. E-commerce is a rapidly developing area, and development of a successful e-commerce strategy involves significant time and resources. If we are unable to successfully execute our e-commerce strategies, our brands may lose share.

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

Our actions to improve our underperforming businesses have been costly and may not be effective.

The downturn in home improvement and new home construction activity in the past four years has impacted our results, particularly in our Cabinets and Related Products and our Installation and Other Services segments and in our European cabinet businesses. Further, the economic decline has also negatively affected certain businesses in our Plumbing Products segment. There is no assurance that our efforts to improve these underperforming businesses through initiatives to reduce costs and increase sales will be successful. Our cost-saving initiatives, including rationalizing our businesses, closing plants, reducing headcount and implementing new systems, have been complex, time-consuming and expensive. The consolidation of our North American Cabinet businesses, in particular, has involved the integration of multiple manufacturing processes and information technology platforms. If we cannot successfully implement these cost-saving initiatives, we may not fully achieve their anticipated benefits.

Our strategy to increase our sales in the Cabinets and Related Products segment through brand building, new product introductions and product innovation requires time to develop, implement and assess. Further, this segment faces significant pricing and promotional pressures. We have also taken several actions to improve the operations of our European cabinet businesses. If we cannot successfully implement these initiatives at all of our Cabinet businesses, our results of operations may continue to be negatively impacted.

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Further, if the eventual economic recovery is fast-paced and robust, we may not be able to ramp up our reduced manufacturing and installation capacity in a timely fashion, and our ability to respond to increased demand could be limited, which could result in lost share and, ultimately, could negatively impact our operating results.

We rely on key customers and may encounter conflicts within and between our distribution channels.

The size and importance of individual customers to our businesses has increased as customers in our major distribution channels have consolidated or exited the business. In 2012, sales to our largest customer, The Home Depot, were $2.1 billion (approximately 28 percent of consolidated net sales). Lowe s is our second largest customer. In 2012, 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. 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.

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. In addition, we may undermine the business relationships we have with customers who purchase our products through traditional wholesale channels as we increase the amount of business we transact directly with our customers. 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.

We face significant competition.

Our products and services face significant competition, and this competition is further intensified during economic downturns. We believe that we compete on the basis of price, product and service quality, brand reputation, customer service and product features and innovation. Some home centers are increasing their purchases of 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, particularly in the emerging markets we are entering. In our Cabinets and Related Products segment, we have experienced significant competition in the form of promotional pricing, discounts, and new product offerings by our competitors, which have impacted our results of operations. In some of our segments, we are also experiencing a shift in the mix of 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, capitalizing on and strengthening our brands, managing our cost structure, accommodating shorter life-cycles for our products, and developing and innovating products, none of which is assured.

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Increased commodity costs and limited availability of commodities could affect our operating results.

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 not only increase our production costs, but also the cost to transport our products, 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 prices for our products and services.

To reduce the price volatility associated with certain anticipated commodity purchases, we use derivative instruments, including commodity futures and swaps. We may incur net substantial costs as part of our strategy to hedge against price volatility of certain commodities we purchase and 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 outside 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 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 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 difficulty of managing our supply chain, 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.

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

Over 20 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). Increased international sales make up an important part of our future strategic plans. In addition, we manufacture products in Asia and source products and components from third parties in Asia. Our international business faces 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,

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including tax laws, laws regulating various business practices, and trade regulations which may include duties and tariffs can also impact our international business. Our international operating results may be influenced by economic conditions in Europe, including uncertainty regarding the European sovereign debt crisis, and competitive pricing pressures on certain products. The financial reporting of our consolidated operating results is affected by fluctuations in currency exchange rates, which may present challenges in comparing operating performance from period to period and in forecasting future performance.

We have investments in financial assets, including assets that are not readily marketable and involve financial risk.

We continue to reduce our investment in private equity funds. Since there is no active trading market for investments in private equity funds, they are for the most part illiquid. These investments, by their nature, can also have a relatively higher degree of business risk, including financial leverage, than other financial investments. Future changes in market conditions, the future performance of the underlying investments or new information provided by private equity fund managers could affect the recorded values of such investments or the amounts realized upon liquidation.

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 increasingly 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.

Increasingly, 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 T to the consolidated financial statements included in Item 8 of this Report for additional information about litigation involving our businesses.

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

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 complying with current requirements and requirements that will become effective at a future date, even more stringent requirements could be imposed on our industries 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 manufacturing and installation processes and our sourcing, which could adversely impact our competitive position. Further, if we do not effectively and timely comply with such regulations and industry standards, our operating results could be negatively affected.

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, particularly our international business expansion and the development of e-commerce capabilities. 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, develop, motivate and retain key employees could negatively affect our competitive position and our operating results. Further, as the housing market recovers, if we are unable to recruit, train and retain sufficient skilled labor, we may not be able to adequately satisfy increased demand for our products and services, which could impact our operating results.

Item 1B. Unresolved Staff Comments.

None.

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	10	9
Plumbing Products	21	4
Decorative Architectural Products	8	8
Other Specialty Products	10	6
Totals	49	27

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

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are subject to significant encumbrances. A substantial number of our warehouse and distribution facilities are leased.

Our Installation and Other Services segment operates approximately 180 installation branch locations and approximately 70 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	2	8
Plumbing Products	12	27
Decorative Architectural Products		
Other Specialty Products	7	
Totals	21	35

Most of our international facilities are located in China, Denmark, Germany and the United Kingdom. We generally own 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.

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 T 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:

	Market Price		Dividends
Quarter	**High**	**Low**	**Declared**
2012			
Fourth	$ 17.19	$ 14.06	$ .075
Third	16.48	11.53	.075
Second	14.68	11.55	.075
First	14.41	10.75	.075
Total			$ .30
2011			
Fourth	$ 10.71	$ 6.60	$ .075
Third	12.50	6.78	.075
Second	14.43	11.73	.075
First	15.03	12.41	.075
Total			$ .30

On January 31, 2013, there were approximately 5,014 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.

Equity Compensation Plan Information

We grant equity under our 2005 Long Term Stock Incentive Plan (the 2005 Plan). The following table sets forth information as of December 31, 2012 concerning the 2005 Plan, which was approved by our stockholders. We do not have any equity compensation plans that have not been approved by stockholders.

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)**
	30,415,783	$ 21.27	10,718,100

Equity compensation plans approved by stockholders

The remaining information required by this Item will be contained in our definitive Proxy Statement for our 2013 Annual Meeting of Stockholders, to be filed on or before April 30, 2013, and such information is incorporated herein by reference.

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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, 2007 through December 31, 2012, when the closing price of our common stock was $16.66. The graph assumes investments of $100 on December 31, 2007 in our common stock and in each of the three indices and the reinvestment of dividends.

PERFORMANCE GRAPH

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, 2007 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.

	2008	2009	2010	2011	2012
Masco	$ 55.78	$ 71.52	$ 67.12	$ 52.15	$ 92.49
S&P 500 Index	$ 63.45	$ 79.90	$ 91.74	$ 93.67	$ 108.55
S&P Industrials Index	$ 60.60	$ 72.83	$ 92.04	$ 91.50	$ 105.47
S&P Consumer Durables & Apparel Index	$ 66.43	$ 90.54	$ 118.19	$ 127.31	$ 154.72

In July 2007, our Board of Directors authorized the purchase of up to 50 million shares of our common stock in open-market transactions or otherwise. At December 31, 2012, we had remaining authorization to repurchase up to 24 million shares. During the first quarter of 2012, we repurchased and retired one million shares of our common stock, for cash aggregating $8 million to offset the dilutive impact of the 2012 grant of one million shares of long-term stock awards. We have not purchased any shares since March 2012.

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Item 6. Selected Financial Data.

	Dollars in Millions (Except Per Common Share Data)				
	2012	2011	2010	2009	2008
Net Sales (1)	$ 7,745	$ 7,467	$ 7,486	$ 7,657	$ 9,338
Operating profit (loss) (1)(2)(3)(4)(5)(6)	$ 271	$ (295)	$ (463)	$ 70	$ 149
Loss from continuing operations attributable to Masco Corporation (1)(2)(3)(4)(5)(6)	$ (76)	$ (465)	$ (1,022)	$ (130)	$ (329)
Loss per common share from continuing operations:					
Basic	$ (.22)	$ (1.34)	$ (2.94)	$ (.38)	$ (.95)
Diluted	$ (.22)	$ (1.34)	$ (2.94)	$ (.38)	$ (.95)
Dividends declared	$ .30	$ .30	$ .30	$ .30	$ .93
Dividends paid	$ .30	$ .30	$ .30	$ .46	$ .925
At December 31:					
Total assets	$ 6,875	$ 7,297	$ 8,140	$ 9,175	$ 9,483
Long-term debt	3,422	3,222	4,032	3,604	3,915
Shareholders equity	534	742	1,582	2,817	2,981

(1) Amounts exclude discontinued operations.

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

(3) The year 2011 includes non-cash impairment charges for goodwill and other intangible assets aggregating $335 million after tax ($494 million pre-tax).

(4) 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 valuation allowance on U.S. deferred tax assets of $372 million.

(5) The year 2009 includes non-cash impairment charges for goodwill aggregating $180 million after tax ($262 million pre-tax).

(6) The year 2008 includes non-cash impairment charges for goodwill and other intangible assets aggregating $412 million after tax ($415 million pre-tax).

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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 anticipate, intend, plan, believe, estimate, expect, assume, seek, appear, may, should, will, forecast 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, shifts in consumer preferences and purchasing practices, our ability to improve our underperforming businesses and our ability to maintain our competitive position in our industries. These and other factors are discussed in detail in Item 1A Risk Factors of this Report. Any forward-looking statement made by us in this Report 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.

2012 Results. Net sales were positively affected by increased new home construction and repair and remodel (except for big ticket items) in the U.S., partially offset by slowing economic conditions in Europe and a stronger U.S. dollar. Our results of operations were positively affected by a more favorable relationship between selling prices and commodity costs and most of our businesses were positively affected by the benefits associated with the business rationalizations and cost savings initiatives that we have implemented over the last several years.

Our Cabinets and Related Products segment continues to be negatively affected by continuing competitive market conditions in repair and remodel in the U.S. and softness in Europe. Our Plumbing Products segment results were positively affected by the benefits of increased sales volume of our North American operations partially offset by lower sales volume and a less favorable product mix related to our international operations. The Decorative Architectural Products segment was positively affected by a more favorable relationship between selling prices and commodity costs and lower program costs. The Installation and Other Services segment was positively affected by increased sales volume. The Other Specialty Products segment was positively affected by a more favorable relationship between selling prices and commodity costs, partially offset by the exit of certain geographies. The Other Specialty Products segment was also negatively affected by incremental warranty expenses of $12 million and the impairment of a registered trademark of $42 million.

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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.

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. 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. During downturns in our markets, declines in the financial condition and creditworthiness of customers impact the credit risk of the receivables involved and we have incurred bad debt expense related to customer defaults. Our bad debt expense was $14 million, $12 million and $18 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Inventories

We record inventories at the lower of cost or net realizable value, with expense estimates made for obsolescence or unsaleable inventory equal to the difference between the recorded cost of inventories and their estimated market value based upon assumptions about future demand and market conditions. On an on-going basis, we monitor these estimates and record adjustments for differences between estimates and actual experience. Historically, actual results have not significantly deviated from those determined using these estimates.

Financial Investments

We follow accounting guidance that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements for our financial investments and liabilities. This 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.

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If applicable, we record investments in available-for-sale securities at fair value, and unrealized gains or losses (that are deemed to be temporary) are recognized, net of tax effect, through shareholders equity, as a component of other comprehensive income in our consolidated balance sheet.

In the past, we have invested excess cash in auction rate securities. Auction rate securities are investment securities that have interest rates which are reset every 7, 28 or 35 days. At December 31, 2012, our investment in auction rate securities was $22 million; we have not increased our investment in auction rate securities since 2007. The fair value of auction rate securities is estimated, on a recurring basis, using a discounted cash flow model (Level 3 input). If we changed the discount rate used in the fair value estimate by 75 basis points, the value of the auction rate securities would change by approximately $1 million.

We have maintained investments in a number of private equity funds, which aggregated $69 million at December 31, 2012. We carry our investments in private equity funds and other private investments at cost. It is not practicable for us to estimate a fair value for private equity funds and other private investments because there are no quoted market prices, and sufficient information is not readily available for us to utilize a valuation model to determine the fair value for each fund. These investments are evaluated, on a non-recurring basis, for potential other-than-temporary impairment when impairment indicators are present, or when an event or change in circumstances has occurred, that may have a significant adverse effect on the fair value of the investment. Due to the significant unobservable inputs, the fair value measurements used to evaluate impairment are a Level 3 input.

Impairment indicators we consider include the following: whether there has been a significant deterioration in earnings performance, asset quality or business prospects; a significant adverse change in the regulatory, economic or technological environment; a significant adverse change in the general market condition or geographic area in which the investment operates; industry and sector performance; current equity and credit market conditions; and any bona fide offers to purchase the investment for less than the carrying value. We also consider specific adverse conditions related to the financial health of and business outlook for the fund, including industry and sector performance. The significant assumptions utilized in analyzing a fund for potential other-than-temporary impairment include current economic conditions, market analysis for specific funds and performance indicators in residential and commercial construction, bio-technology, health care and information technology sectors in which the applicable funds investments operate.

At December 31, 2012, we have investments in 15 venture capital funds, with an aggregate carrying value of $16 million. The venture capital funds invest in start-up or smaller, early-stage established businesses, principally in the information technology, bio-technology and health care sectors. At December 31, 2012, we also have investments in 21 buyout funds, with an aggregate carrying value of $53 million. The buyout funds invest in later-stage, established businesses and no buyout fund has a concentration in a particular sector.

Since there is no active trading market for these investments, they are for the most part illiquid. These investments, by their nature, can also have a relatively higher degree of business risk, including financial leverage, than other financial investments. The timing of distributions from the funds, which depends on particular events related to the underlying investments, as well as the funds schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of income we record from these investments can vary substantially from quarter to quarter. Future changes in market conditions, the future performance of the underlying investments or new information provided by private equity fund managers could affect the recorded values of these investments and the amounts realized upon liquidation.

We record an impairment charge to earnings when an investment has experienced a decline in fair value that is deemed to be other-than-temporary.

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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. Our operating segments are reporting units that engage in business activities for which discrete financial information, including five-year forecasts, is available.

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 2012, we utilized estimated housing starts, from independent industry sources, growing from current levels to 1.5 million units in 2017 (terminal growth year) and operating profit margins improving to approximate historical levels for those business units by 2017 (terminal growth year). We utilize our weighted average cost of capital of approximately 9.5 percent as the basis to determine the discount rate to apply to the estimated future cash flows. In 2012, due to market conditions and 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 percent to 13 percent for most of our reporting units.

In the fourth quarter of 2012, we estimated that future discounted cash flows projected for all of our reporting units were greater than the carrying values. Any increases in estimated discounted cash flows would have no effect on the reported value of goodwill.

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 2012, we did not recognize any non-cash, pre-tax impairment charges for goodwill.

A ten percent decrease in the estimated fair value of our reporting units at December 31, 2012 would not have resulted in any additional analysis of goodwill impairment for any additional business 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 reporting 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

2012, we recognized non-cash, pre-tax impairment charges for other indefinite-lived intangible assets of $42 million ($27 million, after tax) attributable to our Other Specialty Products segment.

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 identifiable intangible assets at each reporting period to determine whether events and circumstances warrant a revision to the remaining periods of amortization.

Stock-Based Compensation

Our 2005 Plan provides for the issuance of stock-based incentives in various forms to employees and non-employee Directors. At December 31, 2012, outstanding stock-based incentives were in the form of long-term stock awards, stock options, phantom stock awards and stock appreciation rights.

Long-Term Stock Awards

We grant long-term stock awards to key employees and non-employee Directors and do not cause net share dilution inasmuch as we generally continue the practice of repurchasing and retiring an equal number of shares on the open market. We measure compensation expense for stock awards at the market price of our common stock at the grant date. There was $72 million (8 million common shares) of total unrecognized compensation expense related to unvested stock awards at December 31, 2012, which was included as a reduction of common stock and paid-in capital. Effective January 1, 2010, the vesting period for stock awards awarded after January 1, 2010 is five years. For stock awards granted prior to January 1, 2006, we recognize this expense over the vesting period of the stock awards, typically five to ten years, or for executive grantees that are, or will become, retirement-eligible during the vesting period, we recognize the expense over five years or immediately upon a grantee s retirement. Effective January 1, 2006, we recognize this expense ratably over the shorter of the vesting period of the stock awards, typically five to ten years (except for stock awards held by grantees age 66 or older, which vest over five years), or the length of time until the grantee becomes retirement-eligible at age 65. Pre-tax compensation expense for the annual vesting of long-term stock awards was $35 million for 2012.

Stock Options

We grant stock options to key employees. The exercise price equals the market price of our common stock at the grant date. These options generally become exercisable (vest ratably) over five years beginning on the first anniversary from the date of grant and expire no later than ten years after the grant date.

We measure compensation expense for stock options using a Black-Scholes option pricing model. We recognize this compensation expense 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. Pre-tax compensation expense for stock options was $15 million for 2012.

We estimated the fair value of stock options at the grant date using a Black-Scholes option pricing model with the following assumptions for 2012: risk-free interest rate 1.09%, dividend yield 2.57%, volatility factor 50.97% and expected option life six years. For expense calculation purposes, the weighted average grant-date fair value of option shares granted in 2012 was $4.44 per option share.

If we increased our assumptions for the risk-free interest rate and the volatility factor by 50 percent, the expense related to the fair value of stock options granted in 2012 would increase by 44 percent. If we lowered our assumptions for the risk-free interest rate and the volatility factor by 50 percent, the expense related to the fair value of stock options granted in 2012 would decrease by 55 percent.

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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. As a result of this action, the liabilities for these plans were remeasured; in addition, certain assumptions appropriate for on-going plans (e.g., turnover, mortality and compensation increases) have been modified or eliminated for the remeasurement.

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 2012, we decreased our discount rate 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, 2012 Towers Watson Rate Link curve. The discount rates we use for our defined-benefit pension plans ranged from 1.75 percent to 4.50 percent, with the most significant portion of the liabilities having a discount rate for obligations of 3.40 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 $462 million at December 31, 2012 from $439 million at December 31, 2011, primarily due to lower rates of return in the bond market in 2012. In accordance with accounting guidance, the underfunded amount has been recognized on our consolidated balance sheets at December 31, 2012 and 2011. Qualified domestic pension plan assets in 2012 had a net gain of approximately 17 percent compared to average gains of 13 percent for the Investor Force Defined Benefit Plan Universe.

Our projected benefit obligation for our unfunded non-qualified defined-benefit pension plans was $181 million at December 31, 2012 compared with $174 million at December 31, 2011. In accordance with accounting guidance, this unfunded amount has been recognized on our consolidated balance sheets at December 31, 2012 and 2011.

At December 31, 2012, we reported a net liability of $643 million, of which $181 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 (AFTAP) for the various defined-benefit pension plans ranges from 71 percent to 84 percent.

We expect pension expense for our qualified defined-benefit pension plans to be $23 million in 2013 compared with $27 million in 2012. 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 2013 pension expense would increase by $4 million. We expect pension expense for our non-qualified defined-benefit pension plans to be $8 million in 2013 compared with $9 million in 2012.

We anticipate that we will be required to contribute approximately $50 million to $60 million in 2013 to our qualified and non-qualified defined-benefit plans.

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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 the fourth quarter of 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 $89 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.

Recording the valuation allowance does not restrict our ability to utilize the future deductions and net operating losses associated with the deferred tax assets assuming taxable income is recognized in future periods.

A rebound in the U.S. housing market from the recent historic lows and retail sales of building products improving from their current levels should have a positive impact on our operating results in the U.S. A return to sustained profitability in the U.S. should result in objective positive evidence thereby warranting the potential reversal of all or a portion of the valuation allowance.

The $203 million and $156 million of deferred tax assets at December 31, 2012 and 2011, respectively, for which there is no valuation allowance recorded, are anticipated to be realized through the future reversal of existing taxable temporary differences recorded as deferred tax liabilities.

Should we determine that we would not be able to realize our remaining deferred tax assets 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.

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.

Other Commitments and Contingencies

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.

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. See Note T to our consolidated financial statements for information regarding certain of our legal proceedings.

Corporate Development Strategy

Our current business strategy includes the rationalization of our business units, including consolidations, and increasing synergies among our business units. Going forward, we expect to maintain a balanced growth strategy with emphasis on cash flow, organic growth with fewer acquisitions and growth through new product development and greenfield locations related to certain Installation and Other Services businesses.

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. As a result, during 2012, we sold several business units in the Installation and Other Services segment. These businesses were related to commercial drywall installation, millwork and framing; accordingly, we accounted for these businesses as discontinued operations in 2012 and 2011. See Note B to the consolidated financial statements for more information.

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; as a result, we have cash of approximately $1.4 billion at December 31, 2012. Our total debt as a percent of total capitalization was 87 percent and 84 percent at December 31, 2012 and 2011, respectively.

We maintain a Credit Agreement (the Credit Agreement) with a bank group, with an aggregate commitment of $1.25 billion and a maturity date of January 10, 2014. The Credit Agreement provides for an unsecured revolving credit facility available to us and one of our foreign subsidiaries, in U.S. dollars, European euros and certain other currencies.

We have entered into two amendments of the Credit Agreement. The amendments provided for the add-back to shareholders equity in our debt to capitalization covenant of certain non-cash charges, changes to the valuation allowance on our deferred tax assets included in income tax expense, and certain future non-cash charges. The second amendment also revised the permitted ratio of consolidated EBITDA to the consolidated interest expense to 2.25 to 1.00 through December 31, 2012, increasing to 2.50 to 1.00 with respect to each quarter thereafter.

At December 31, 2012, we had additional borrowing capacity, subject to availability, of up to $873 million. Alternatively, at December 31, 2012, we could absorb a reduction to shareholders equity of approximately $470 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, 2012.

On March 5, 2012, we issued $400 million of 5.95% Notes due March 15, 2022 (the Notes). Including the interest rate swap amortization, the effective interest rate for the Notes is approximately 6.5%. The Notes are senior indebtedness and are redeemable at the Company s option.

In January 2012, we repurchased $46 million of 5.875% Notes due July 15, 2012 in open-market transactions; we paid a premium of $1 million for the repurchase. In July 2012, we retired all of our $745 million of 5.875% Notes on the scheduled retirement date.

We had cash and cash investments of approximately $1.4 billion at December 31, 2012. 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 $1.4 billion and the $1.7 billion of cash and cash investments we held at December 31, 2012 and 2011, respectively, $572 million and $551 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 have maintained investments in available-for-sale and marketable securities and a number of private equity funds, principally as part of our tax planning strategies, as any gains enhance the utilization of any current and future capital tax losses. We determined that the longer maturity of private equity funds would be advantageous and complement our investment in more liquid available-for-sale and marketable securities to balance risk. Since we have significantly reduced our capital tax losses in part by generating capital gains from investments and other sources, we have and will continue to reduce our investments in long-term financial assets.

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.

During 2012, we paid quarterly dividends of $.075 per common share.

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Our working capital ratio was 1.7 to 1 and 1.5 to 1 at December 31, 2012 and 2011, respectively. The increase in the working capital ratio is primarily due to the payment of $791 million of 5.875% Notes in July 2012, which were included in current liabilities at December 31, 2011, partially offset by the short-term classification of $200 million Notes due August 2013.

Cash Flows

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

	2012	2011	2010
Net cash from operating activities	$ 281	$ 239	$ 465
Retirement of notes	(791)	(58)	(359)
Issuance of notes, net of issuance costs	396		494
Payment for settlement of swaps	(25)		
Proceeds from disposition of:			
Businesses, net of cash disposed	9		
Property and equipment	67	24	18
Proceeds from financial investments, net	40	94	42
Tax benefit from stock-based compensation			4
Cash dividends paid	(107)	(107)	(108)
Capital expenditures	(119)	(151)	(137)
Purchase of Company common stock	(8)	(30)	(45)
Decrease in debt, net	(1)	(5)	(2)
Dividends paid to noncontrolling interest	(40)	(18)	(15)
Acquisition of businesses, net of cash acquired		(10)	
Effect of exchange rates on cash and cash investments	17	(18)	(14)
Other, net	(24)	(19)	(41)
Cash (decrease) increase	$ (305)	$ (59)	$ 302

Our cash and cash investments decreased $305 million to $1,351 million at December 31, 2012, from $1,656 million at December 31, 2011.

Net cash provided by operations of $281 million consisted primarily of net (loss) adjusted for non-cash and certain other items, including depreciation and amortization expense of $214 million, a $42 million charge for the impairment of other intangible assets, a $50 million net change in deferred taxes and other non-cash items, including stock-based compensation expense and amortization expense related to in-store displays.

We continue to emphasize balance sheet management, including working capital management and cash flow generation. Days sales in accounts receivable were 47 days at both December 31, 2012 and 2011, and days sales in inventories were 52 days at both December 31, 2012 and 2011. Accounts payable days were 66 days at December 31, 2012 and 63 days at December 31, 2011; the increase in payable days is due to our improved management of accounts payable. Working capital (defined as accounts receivable and inventories less accounts payable) as a percent of sales was 12.1 percent at December 31, 2012 and 12.2 percent at December 31, 2011.

Net cash used for financing activities was $576 million, primarily due to the retirement of $791 million of 5.875% Notes due July 15, 2012, $107 million for cash dividends paid, $25 million for the settlement of interest rate swaps and $8 million for the acquisition of our common stock to generally offset the dilutive impact of long-term stock awards granted in 2012, partially offset by the issuance of Notes for $396 million, net of issuance costs.

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At December 31, 2012, we had remaining authorization from our Board of Directors to repurchase up to an additional 24 million shares of our common stock in open-market transactions or otherwise. 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 2013 to offset any dilution from long-term stock awards granted or stock options exercised as part of our compensation programs.

Net cash used for investing activities was $27 million, and included $119 million for capital expenditures. Cash provided by investing activities included primarily $67 million of net proceeds from the disposition of property and equipment and $40 million from the net sale of financial investments.

We invest in automating our manufacturing operations to increase our productivity, improve customer service and support new product innovation. Capital expenditures for 2012 were $119 million, compared with $151 million for 2011 and $137 million for 2010; for 2013, capital expenditures, excluding any potential 2013 acquisitions, are expected to be approximately $165 million. Depreciation and amortization expense for 2012 totaled $214 million, compared with $263 million for 2011 and $279 million for 2010; for 2013, depreciation and amortization expense, excluding any potential 2013 acquisitions, is expected to be approximately $210 million. Amortization expense totaled $12 million, $17 million and $18 million in 2012, 2011 and 2010, respectively.

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 2012 were $7.7 billion, which increased four percent compared with 2011. Excluding results from acquisitions and the negative effect of currency translation, net sales increased five percent compared with 2011. The following table reconciles reported net sales to net sales excluding acquisitions and the effect of currency translation, in millions:

	Twelve Months Ended December 31	
	2012	**2011**
Net sales, as reported	$ 7,745	$ 7,467
Acquisitions	(16)	
Net sales, excluding acquisitions	7,729	7,467
Currency translation	119	
Net sales, excluding acquisitions and the effect of currency	$ 7,848	$ 7,467

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, which, in aggregate,

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increased sales by approximately four percent compared to 2011. Net sales for 2012 were also positively affected by selling price increases, which increased sales by approximately three percent. Net sales for 2012 were negatively affected by the planned exit of certain cabinet and window product lines in certain geographic areas. A stronger U.S. dollar decreased sales by two percent compared to 2011.

Net sales for 2011 were adversely affected by lower sales volume of installed products, cabinets, paints and stains, builders hardware and windows, which, in aggregate, reduced sales by approximately three percent compared to 2010. Net sales for 2011 were also adversely affected by the planned exit of certain cabinet product lines, which reduced sales by approximately two percent compared to 2010. Such declines were partially offset by selling price increases, primarily related to plumbing products and paints and stains, which increased sales by approximately three percent. A weaker U.S. dollar increased sales by one percent compared to 2010.

Our gross profit margins were 25.2 percent, 23.9 percent and 24.5 percent in 2012, 2011 and 2010, respectively. The 2012 gross profit margin reflects a more favorable relationship between selling prices and commodity costs as well as increased sales volume. The decrease in the 2011 gross profit margin reflects lower sales volume and a less favorable relationship between selling prices and commodity costs. Both 2012 and 2011 reflect the benefits associated with business rationalizations and other cost savings initiatives.

Selling, general and administrative expenses as a percent of sales were 20.2 percent in 2012 compared with 21.2 percent in 2011 and 21.3 percent in 2010. Selling, general and administrative expenses as a percent of sales in 2012 reflect increased sales volume and lower business rationalization costs. Selling, general and administrative expenses as a percent of sales in 2011 reflect increased expenses related to growth initiatives, offset by lower business rationalization expenses. Both 2012 and 2011 reflect the benefits associated with our business rationalizations and other cost savings initiatives.

Operating profit (loss) in 2012, 2011 and 2010 includes $78 million, $121 million and $208 million, respectively, of costs and charges related to business rationalizations and other cost savings initiatives. Operating profit (loss) in 2012, 2011 and 2010 includes $42 million, $494 million and $698 million, respectively, of impairment charges for goodwill and other intangible assets. Operating profit (loss) in 2012 and 2011 includes $77 million and $9 million, respectively, of net charges for litigation settlements. Operating profit (loss) in 2012 includes $8 million of net gains related to fixed asset sales. Operating profit (loss) margins, as reported, were 3.5 percent, (4.0) percent and (6.2) percent in 2012, 2011 and 2010, respectively. Operating profit margins, excluding the items above, were 6.1 percent, 4.4 percent and 5.9 percent in 2012, 2011 and 2010, respectively.

Operating margins in 2012 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.

Operating margins in 2011 were negatively affected by a less favorable relationship between selling prices and commodity costs, a less favorable product mix and increased expenses related to growth initiatives. Such decreases more than offset lower business rationalization costs and the benefits associated with such expenses.

Other Income (Expense), Net

Other, net, for 2012 included gains of $24 million from financial investments, net. 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.

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During 2011, we recognized gains of $41 million related to the sale of TriMas common stock. We also recognized gains of $32 million related to distributions from private equity funds.

Other, net, for 2011 also included realized foreign currency losses of $5 million and other miscellaneous items.

During 2010, we recognized non-cash, pre-tax impairment charges aggregating $34 million related to financial investments ($28 million related to Asahi Tec preferred stock and $6 million related to private equity funds and other private investments).

Other, net, for 2010 included $9 million of income from financial investments, net. Other, net, for 2010 also included realized foreign currency losses of $2 million and other miscellaneous items.

Interest expense was $254 million, $254 million and $251 million in 2012, 2011 and 2010, respectively.

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

(Loss) and diluted (loss) per common share from continuing operations for 2012 were $(76) million and $(.22) per common share, respectively. (Loss) and diluted (loss) per common share from continuing operations for 2011 were $(465) million and $(1.34) per common share, respectively. (Loss) and diluted (loss) per common share from continuing operations for 2010 were $(1,022) million and $(2.94) 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). (Loss) from continuing operations for 2011 included non-cash, pre-tax impairment charges for goodwill and other intangible assets of $494 million ($335 million or $.96 per common share, after tax). (Loss) from continuing operations for 2010 included non-cash, pre-tax impairment charges for goodwill and other intangible assets of $698 million ($586 million or $1.68 per common share, after tax).

Our effective tax rate for the loss from continuing operations was a 198 percent tax expense, a 10 percent tax benefit, and a 32 percent tax expense in 2012, 2011 and 2010, respectively. Compared to our normalized effective tax rate of 36 percent, the variance in the effective tax rate in 2012, 2011 and 2010 is due primarily to changes in the U.S. Federal valuation allowance, reversal of an accrual for uncertain tax positions and intangible asset impairment charges providing no tax benefit.

Outlook for the Company

We continue to make progress on our strategic initiatives, which include expanding our product leadership positions, reducing our costs, improving our Installation and Cabinet segments and strengthening our balance sheet. We believe these initiatives, coupled with the actions we have taken over the past several years, should position us for improved results in 2013, and continue to believe that we will outperform as new home construction and repair and remodel recover.

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.

	2012	2011	2010	Percent Change 2012 vs. 2011	Percent Change 2011 vs. 2010
Net Sales:					
Cabinets and Related Products	$ 1,189	$ 1,231	$ 1,464	(3)%	(16)%
Plumbing Products	2,955	2,913	2,692	1 %	8 %
Installation and Other Services	1,209	1,077	1,041	12 %	3 %
Decorative Architectural Products	1,818	1,670	1,693	9 %	(1)%
Other Specialty Products	574	576	596	%	(3)%
Total	$ 7,745	$ 7,467	$ 7,486	4 %	%
North America	$ 6,046	$ 5,669	$ 5,823	7 %	(3)%
International, principally Europe	1,699	1,798	1,663	(6)%	8 %
Total	$ 7,745	$ 7,467	$ 7,486	4 %	%

	2012	2012(B)	2011	2011(B)	2010	2010(B)
Operating Profit (Loss): (A)						
Cabinets and Related Products	$ (120)	$ (120)	$ (206)	$ (162)	$ (250)	$(250)
Plumbing Products	307	307	322	323	331	332
Installation and Other Services	(19)	(19)	(79)	(79)	(798)	(101)
Decorative Architectural Products	329	329	196	271	345	345
Other Specialty Products	(31)	11	(401)	(27)	19	19
Total	$ 466	$ 508	$ (168)	$ 326	$ (353)	$345
North America	$ 360	$ 402	$ (259)	$ 191	$(507)	$191
International, principally Europe	106	106	91	135	154	154
Total	466	508	(168)	326	(353)	345
General corporate expense, net	(126)	(126)	(118)	(118)	(110)	(110)
Charge for litigation settlements, net	(77)	(77)	(9)	(9)		
Gain from sales of fixed assets, net	8	8				
Total operating profit (loss)	$ 271	$ 313	$ (295)	$ 199	$(463)	$235

	2012	2012(B)	2011	2011(B)	2010	2010(B)
Operating Profit (Loss) Margin: (A)						
Cabinets and Related Products	(10.1)%	(10.1)%	(16.7)%	(13.2)%	(17.1)%	(17.1)%
Plumbing Products	10.4 %	10.4 %	11.1 %	11.1 %	12.3 %	12.3 %
Installation and Other Services	(1.6)%	(1.6)%	(7.3)%	(7.3)%	(76.7)%	(9.7)%
Decorative Architectural Products	18.1 %	18.1 %	11.7 %	16.2 %	20.4 %	20.4 %
Other Specialty Products	(5.4)%	1.9 %	(69.6)%	(4.7)%	3.2 %	3.2 %
North America	6.0 %	6.6 %	(4.6)%	3.4 %	(8.7)%	3.3 %
International, principally Europe	6.2 %	6.2 %	5.1 %	7.5 %	9.3 %	9.3 %
Total	6.0 %	6.6 %	(2.2)%	4.4 %	(4.7)%	4.6 %

Total operating profit (loss) margin, as reported	3.5 %	N/A	(4.0)%	N/A	(6.2)%	N/A

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

(B) Excluding impairment charges for goodwill and other intangible assets. The 2012 impairment charge for other intangible assets was as follows: Other Specialty Products $42 million. The 2011 impairment charges for goodwill and other intangible assets were as follows: Cabinets and Related Products $44 million; Plumbing Products $1 million; Decorative Architectural Products $75 million; and Other Specialty Products $374 million. The 2010 impairment charges for goodwill and other intangible assets were as follows: Plumbing Products $1 million; and Installation and Other Services $697 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, charge for litigation settlements, net, gain from sales of fixed assets, net, and impairment charges for goodwill and other intangible assets in 2012, 2011 and 2010.

Business Rationalizations and Other Initiatives

Over the past several years, we have been focused on the strategic rationalization of our businesses, including business consolidations, plant closures, headcount reductions, system implementations and other cost savings initiatives. For the years ended December 31, 2012, 2011 and 2010, we incurred net pre-tax costs and charges related to these initiatives of $78 million, $121 million and $208 million, respectively.

During 2012, our North American cabinet business continued to incur 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 $6 million of costs and charges across our business units related to other cost savings initiatives.

During 2011, our North American cabinet business continued to incur costs and charges of $24 million related to the exit of its ready-to-assemble product line and $6 million related to the integration of its facilities. Our European manufacturer of ready to assemble cabinetry also incurred costs and charges of $9 million related to the closure of one manufacturing facility and the severance related to further headcount reductions. Our Installation and Other Services segment incurred costs and charges of $4 million related to the closure of several locations and further headcount reductions. Our builders hardware business in the Decorative Architectural Products segment incurred costs and charges of $9 million related to the exit of a product line. Our North American window manufacturer incurred costs and charges of $30 million related to the closure of several manufacturing facilities.

In 2010, we took several actions within the Cabinets and Related Products segment to rationalize our North American manufacturers, including closing plants, exiting product lines and integrating our Builder and Retail Cabinet Groups. We incurred costs and charges of $171 million in 2010 related to these actions.

In the fourth quarter of 2011, we decided to dispose of several non-core businesses in the Installation and Other Services segment. These businesses were related to commercial drywall installation, millwork and framing, and were classified as discontinued operations for all periods. During 2012, we sold all of these businesses, for net proceeds of $7 million.

Based on current plans, we anticipate costs and charges related to our business rationalizations and other initiatives to approximate $40 million in 2013. 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.

In early February 2013, we determined that 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. This business unit had 2012 sales of approximately $250 million and an operating loss of approximately $30 million. The disposition is expected to be completed within the next 12 months.

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Cabinets and Related Products

Sales

Net sales of Cabinets and Related Products decreased primarily due to lower sales volume of international operations, which decreased sales by three percent from 2011. Such declines were partially offset by increased sales volume of North American operations and by increased selling prices, which increased sales by one percent compared to 2011. A stronger U.S. dollar decreased sales in this segment by two percent in 2012 compared to 2011.

Net sales in this segment decreased in 2011 primarily due to lower sales volumes of North American cabinets, which reduced sales by approximately four percent compared to 2010. Sales in this segment in 2011 were also negatively affected by the planned exit of North American ready-to-assemble and other non-core in-stock assembled cabinet product lines, particle board and door product lines, which reduced sales by approximately 11 percent compared to 2010. Sales were also negatively affected by lower sales volume of international cabinets, which reduced sales in this segment by approximately two percent compared to 2010. A weaker U.S. dollar increased sales by one percent in 2011 compared to 2010.

Net sales in this segment in 2010 were negatively affected by lower sales volumes of North American and international cabinets and the planned exit of ready-to-assemble and other non-core in-stock assembled cabinet product lines, particle board and door product lines.

Operating Results

Operating margins in the Cabinets and Related Products segment in 2012 were positively affected by lower business rationalization expenses and the benefits associated with such expenses incurred in prior years; such benefits were partially offset by lower operating results of international operations.

Operating margins in this segment in 2011 were positively affected by lower business rationalization expenses and the benefits associated with such expenses, including benefits related to the integration of the North American cabinet businesses. Such increases were partially offset by a less favorable relationship between selling prices and commodity costs, aggressive promotional activity and lower sales volume and the related under-absorption of fixed costs.

Operating margins in this segment in 2010 were negatively affected by lower sales volume and the related under-absorption of fixed costs, which reduced operating profit margins by approximately three percentage points. Operating profit margins in this segment in 2010 were also negatively affected by increased business rationalization expenses and a less favorable relationship between selling prices and commodity costs; such decreases more than offset the benefits associated with business rationalizations and other cost savings initiatives.

Plumbing Products

Sales

Net sales of Plumbing Products increased in 2012 primarily due to increased sales volume of North American operations and increased selling prices, which, in aggregate, increased sales by approximately five percent compared to 2011. Lower sales volume of international operations decreased sales in this segment by one percent from 2011. A stronger U.S. dollar decreased sales by three percent in 2012 compared to 2011.

Net sales in this segment increased in 2011 primarily due to increased selling prices, which increased sales by approximately three percent compared to 2010. Sales were also positively affected by increased sales volume in North America and International, which, in aggregate, increased sales by

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approximately three percent compared to 2010. A weaker U.S. dollar increased sales by two percent in 2011 compared to 2010.

Net sales in this segment in 2010 were positively affected by a more favorable product mix to North American retailers and wholesalers, increased selling prices, and sales of International operations. Such increases were partially offset by lower sales volume to North American retailers and wholesalers.

Operating Results

Operating margins in the Plumbing Products 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.

Operating margins in this segment in 2011 were negatively affected by a less favorable relationship between selling prices and commodity costs, a less favorable product mix and increased expenses related to growth initiatives which offset the benefits associated with business rationalizations and other cost savings initiatives.

Operating margins in this segment in 2010 were positively affected by a more favorable product mix and the positive relationship between selling prices and commodity costs and the benefits associated with business rationalizations and other cost savings initiatives.

Installation and Other Services

Sales

Net sales in the Installation and Other Services segment increased in 2012 primarily due to increased sales volume related to a higher level of activity in the new home construction market and increased commercial sales.

Net sales in this segment increased in 2011 primarily due to increased distribution sales, increased selling prices and increased retrofit and commercial sales. Such increases were partially offset by lower sales volume of installed products related to a continued decline in the new home construction market, the downward trend in the size and content of new houses in early 2011 and the increased multi-family construction; we gained share in single-family construction.

Net sales in this segment decreased in 2010 primarily due to lower sales volume related to reduced share in the new home construction market. Sales in this segment were also negatively affected by a downward trend in the size and content of new houses being constructed by our builder customers.

Operating Results

Operating margins in the Installation and Other Services 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.

Operating margins in the Installation and Other Services segment in 2011 were positively affected by increased sales volume, the benefits associated with business rationalizations and other cost savings initiatives and a more favorable relationship between selling prices and commodity costs.

Operating margins in this segment in 2010 were negatively affected by lower sales volume in the new home construction market and the related under-absorption of fixed costs, as well as a less favorable relationship between selling prices and commodity costs. Such declines were partially offset by the benefits associated with business rationalization and other cost savings initiatives and lower system implementation costs in 2010.

Decorative Architectural Products

Sales

Net sales of Decorative Architectural Products increased in 2012, primarily due to increased selling prices of paints and stains, as well as increased sales volume of paints and stains and builders hardware.

Net sales in this segment decreased in 2011, primarily due to lower sales volume of paints and stains and builders hardware. Such declines in 2011 were partially offset by increased selling prices of paints and stains.

Net sales in this segment in 2010 were negatively affected by lower sales volume of builders hardware and lower selling prices of paints and stains, partially offset by a more favorable product mix of paints and stains, related to new product introductions.

Operating Results

Operating margins in the Decorative Architectural Products 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.

Operating margins in this segment in 2011 were negatively affected by a less favorable relationship between selling prices and commodity costs related to paints and stains and increased expenses related to growth initiatives. This segment was also negatively affected by increased business rationalization expenses related to the exit of a builders hardware product line.

Operating margins in this segment in 2010 were negatively affected by a less favorable relationship between selling prices and commodity costs related to paints and stains, as well as lower sales volume of builders hardware. Such declines more than offset the benefit of a more favorable product mix of paints and stains, related to new product introductions.

Other Specialty Products

Sales

Net sales of Other Specialty Products were flat in 2012 primarily due to 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.

Net sales in this segment decreased in 2011 primarily due to lower sales volume of windows in North America (due to the expiration of the energy tax credit in 2010) and the U.K., partially offset by increased selling prices and increased sales related to new product introductions and geographic expansion. A weaker U.S. dollar increased sales in this segment by one percent compared to 2010.

Net sales in this segment increased in 2010 primarily due to increased sales volume of windows in North America, principally related to the energy-savings tax credit which expired at the end of 2010, and increased sales volume of staple gun tackers and other fastening tools.

Operating Results

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.

Operating margins in this segment in 2011 were negatively affected by increased business rationalization expenses, lower sales volume and increased product launch and geographic expansion costs. Such decreases offset a more favorable relationship between selling prices and commodity costs and the benefits associated with business rationalizations and other cost savings initiatives.

Operating margins in this segment in 2010 reflect the negative effect of a less favorable relationship between selling prices and commodity costs and a less favorable windows product mix. Such declines offset the benefits associated with business rationalizations and other cost savings initiatives.

Geographic Area Results Discussion

North America

Sales

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, which, in the aggregate, increased sales by approximately four percent compared to 2011. Net sales were also positively affected by increased selling prices of plumbing products and paints and stains, which increased sales by approximately three percent compared to 2011.

North American net sales in 2011 were negatively impacted by lower sales volume of cabinets, including the planned exit of certain product lines, paints and stains, builders hardware and windows, which, in the aggregate, decreased sales by approximately six percent compared to 2010. Such declines were partially offset by increased selling prices of plumbing products and paints and stains, which increased sales by approximately three percent compared to 2010.

North American net sales in 2010 were negatively impacted by lower sales volume of installation and other services, cabinets, plumbing products, and builders hardware, partially offset by a more favorable product mix of plumbing products and paints and stains, which increased sales by approximately one percent compared to 2009.

Operating Results

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 which, in aggregate, increased operating margins by three percentage points.

Operating margins from North American operations in 2011 were positively affected by lower business rationalization expenses and the benefits associated with business rationalization and other cost savings initiatives, which increased operating margins by two percentage points. Such increases offset the negative impact of lower sales volume and the related under-absorption of fixed costs and a less favorable relationship between selling prices and commodity costs which, in the aggregate, decreased operating profit margins by one percentage point in 2011 compared to 2010.

Operating margins from North American operations in 2010 were negatively affected by lower sales volume and the related under-absorption of fixed costs and a less favorable relationship between selling prices and commodity costs, which decreased operating profit margins by two percentage points in 2010 compared to 2009. Operating margins were also negatively affected by increased business rationalization costs and charges in 2010 compared to 2009.

International, Principally Europe

Sales

Net sales from international operations in 2012 were flat in local currencies compared to 2011, primarily due to lower sales volume of international plumbing products, cabinets and windows, offset by increased selling prices. A stronger U.S. dollar decreased International net sales by six percent in 2012 compared to 2011.

Net sales from international operations increased in local currencies in 2011 by approximately three percent compared to 2010, primarily due to increased sales volume and increased selling prices of International plumbing products, offset by lower sales volume of International cabinets. A weaker U.S. dollar increased International net sales by five percent in 2011 compared to 2010.

Net sales from international operations increased in local currencies in 2010, primarily due to increased sales volume and increased selling prices of International plumbing products and windows, offset by lower sales volume of International cabinets.

Operating Results

Operating profit 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.

Operating profit margins from international operations in 2011 were negatively affected by a less favorable product mix and a less favorable relationship between selling prices and commodity costs, partially offset by the benefits associated with business rationalizations and other cost savings initiatives.

Operating profit margins from international operations in 2010 were negatively affected by a less favorable product mix, partially offset by 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 T 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, 2012, commitments to contribute up to $19 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.

Contractual Obligations

The following table provides payment obligations related to current contracts at December 31, 2012, 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)	$ 206	$ 1,503	$ 416	$ 1,503	$	$ 3,628
Interest (A)	221	585	217	628		1,651
Operating leases	91	93	28	48		260
Currently payable income taxes	27					27
Private equity funds (B)	10	9				19
Purchase commitments (C)	256	10				266
Uncertain tax positions, including interest and penalties (D)	1				67	68
Total	$ 812	$ 2,200	$ 661	$ 2,179	$ 67	$ 5,919

(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 Footnote M of our financial statements for defined-benefit plan obligations.

Recently Issued Accounting Pronouncements. On January 1, 2012, we adopted new accounting guidance requiring more prominent presentation of other comprehensive income items in our consolidated financial statements. The adoption of this new guidance did not have an impact on our financial position or our results of operations.

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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, 2012, 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, 2012 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, 2012.

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, 2012. Their report expressed an unqualified opinion on the effectiveness of Masco Corporation s internal control over financial reporting as of December 31, 2012 and expressed an unqualified opinion on the Company s 2012 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, based on criteria established in *Internal Control Integrated Framework* 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.

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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

PricewaterhouseCoopers LLP

Detroit, Michigan

February 15, 2013

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Financial Statements and Supplementary Data

MASCO CORPORATION and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

at December 31, 2012 and 2011

	(In Millions, Except Share Data) 2012	2011
ASSETS		
Current Assets:		
Cash and cash investments	$ 1,351	$ 1,656
Receivables	965	914
Inventories	792	769
Prepaid expenses and other	109	70
Assets held for sale		20
Total current assets	3,217	3,429
Property and equipment, net	1,429	1,567
Goodwill	1,894	1,891
Other intangible assets, net	151	196
Other assets	184	209
Assets held for sale		5
Total Assets	$ 6,875	$ 7,297
LIABILITIES and EQUITY		
Current Liabilities:		
Accounts payable	$ 819	$ 770
Notes payable	206	803
Accrued liabilities	837	782
Liabilities held for sale		8
Total current liabilities	1,862	2,363
Long-term debt	3,422	3,222
Deferred income taxes and other	1,057	970
Total Liabilities	6,341	6,555
Commitments and contingencies		
Equity:		
Masco Corporation s shareholders equity Common shares authorized: 1,400,000,000; issued and outstanding: 2012 349,000,000; 2011 347,900,000	349	348
Preferred shares authorized: 1,000,000; issued and outstanding: 2012 and 2011 None		
Paid-in capital	16	65
Retained (deficit) earnings	(102)	38
Accumulated other comprehensive income	59	76
Total Masco Corporation s shareholders equity	322	527
Noncontrolling interest	212	215

Total Equity	534	742
Total Liabilities and Equity	$ 6,875	$ 7,297

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, 2012, 2011 and 2010

	(In Millions, Except Per Common Share Data)		
	2012	**2011**	**2010**
Net sales	$ 7,745	$ 7,467	$ 7,486
Cost of sales	5,794	5,683	5,653
Gross profit	1,951	1,784	1,833
Selling, general and administrative expenses	1,561	1,576	1,598
Charge for litigation settlements, net	77	9	
Impairment charges for goodwill and other intangible assets	42	494	698
Operating profit (loss)	271	(295)	(463)
Other income (expense), net:			
Interest expense	(254)	(254)	(251)
Impairment charges for financial investments	(2)		(34)
Other, net	27	77	7
	(229)	(177)	(278)
Income (loss) from continuing operations before income taxes	42	(472)	(741)
Income tax expense (benefit)	83	(49)	240
Loss from continuing operations	(41)	(423)	(981)
Loss from discontinued operations, net	(38)	(110)	(21)
Net loss	(79)	(533)	(1,002)
Less: Net income attributable to noncontrolling interest	35	42	41
Net loss attributable to Masco Corporation	$ (114)	$ (575)	$ (1,043)
Loss per common share attributable to Masco Corporation:			
Basic:			
Loss from continuing operations	$ (.22)	$ (1.34)	$ (2.94)
Loss from discontinued operations, net	(.11)	(.32)	(.06)
Net loss	$ (.33)	$ (1.66)	$ (3.00)
Diluted:			
Loss from continuing operations	$ (.22)	$ (1.34)	$ (2.94)
Loss from discontinued operations, net	(.11)	(.32)	(.06)
Net loss	$ (.33)	$ (1.66)	$ (3.00)
Amounts attributable to Masco Corporation:			
Loss from continuing operations	$ (76)	$ (465)	$ (1,022)
Loss from discontinued operations, net	(38)	(110)	(21)

Net loss	$ (114)	$ (575)	$ (1,043)

See notes to consolidated financial statements.

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MASCO CORPORATION and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

for the years ended December 31, 2012, 2011 and 2010

			(In Millions)
	2012	**2011**	**2010**
Net loss	$ (79)	$ (533)	$ (1,002)
Less: Net income attributable to noncontrolling Interest	35	42	41
Net loss attributable to Masco Corporation	$ (114)	$ (575)	$ (1,043)
Other comprehensive income (loss), net of tax:			
Cumulative translation adjustment	$ 28	$ (30)	$ (57)
Unrealized gain (loss) on interest rate swaps, net of income tax of $, $ and $, respectively	2	(23)	
Unrealized (loss) gain on marketable securities, net of income tax of $, $ and $, respectively		(38)	1
Unrecognized pension prior service cost and net loss, net of income tax (benefit) of $(9), $5 and $, respectively	(45)	(113)	(53)
Other comprehensive loss	(15)	(204)	(109)
Less: Other comprehensive income (loss) attributable to the noncontrolling interest	2	(7)	(16)
Other comprehensive loss attributable to Masco Corporation	$ (17)	$ (197)	$ (93)
Total comprehensive loss	$ (94)	$ (737)	$ (1,111)
Less: Total comprehensive income attributable to noncontrolling interest	37	35	25
Total comprehensive loss attributable to Masco Corporation	$ (131)	$ (772)	$ (1,136)

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, 2012, 2011 and 2010

			(In Millions)
	2012	2011	2010
CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:			
Net loss	$ (79)	$ (533)	$ (1,002)
Depreciation and amortization	214	263	279
Deferred income taxes	50	(112)	168
Non-cash loss on disposition of businesses, net	4		
(Gain) on disposition of investments, net	(24)	(71)	(8)
Impairment charges:			
Financial investments	2		34
Goodwill and other intangible assets	42	494	698
Long-lived assets			67
Discontinued operations	3	86	23
Stock-based compensation	61	61	62
Other items, net	(28)	53	29
(Increase) decrease in receivables	(50)	(60)	80
(Increase) decrease in inventories	(16)	(54)	2
Increase in accounts payable and accrued liabilities, net	102	112	33
Net cash from operating activities	281	239	465
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:			
Increase in debt	4	4	4
Payment of debt	(5)	(9)	(6)
Issuance of notes, net of issuance costs	396		494
Credit Agreement costs		(1)	(9)
Retirement of notes	(791)	(58)	(359)
Payment for settlement of swaps	(25)		
Purchase of Company common stock	(8)	(30)	(45)
Tax benefit from stock-based compensation			4
Dividends paid to noncontrolling interest	(40)	(18)	(15)
Cash dividends paid	(107)	(107)	(108)
Net cash for financing activities	(576)	(219)	(40)
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:			
Capital expenditures	(119)	(151)	(137)
Acquisition of businesses, net of cash acquired		(10)	
Proceeds from disposition of:			
Marketable securities		49	22
Businesses, net of cash disposed	9		
Property and equipment	67	24	18
Other financial investments, net	40	45	20
Other, net	(24)	(18)	(32)
Net cash for investing activities	(27)	(61)	(109)
Effect of exchange rate changes on cash and cash investments	17	(18)	(14)

CASH AND CASH INVESTMENTS:			
(Decrease) increase for the year	(305)	(59)	302
At January 1	1,656	1,715	1,413
At December 31	$ 1,351	$ 1,656	$ 1,715

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, 2012, 2011 and 2010

(In Millions, Except Per Share Data)

	Total	Common Shares ($1 par value)	Paid-In Capital	Retained (Deficit) Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest
Balance, January 1, 2010	$ 2,817	$ 350	$ 42	$ 1,871	$ 366	$ 188
Total comprehensive (loss) income	(1,111)			(1,043)	(93)	25
Shares issued		2	(2)			
Shares retired:						
Repurchased	(45)	(3)	(42)			
Surrendered (non-cash)	(6)		(6)			
Cash dividends declared	(108)			(108)		
Dividends paid to noncontrolling interest	(15)					(15)
Stock-based compensation	50		50			
Balance, December 31, 2010	$ 1,582	$ 349	$ 42	$ 720	$ 273	$ 198
Total comprehensive (loss) income	(737)			(575)	(197)	35
Shares issued		2	(2)			
Shares retired:						
Repurchased	(30)	(2)	(28)			
Surrendered (non-cash)	(8)	(1)	(7)			
Cash dividends declared	(107)			(107)		
Dividends paid to noncontrolling interest	(18)					(18)
Stock-based compensation	60		60			
Balance, December 31, 2011	$ 742	$ 348	$ 65	$ 38	$ 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)			