



Strength through **Innovation**  
**Masco Corporation** 2008 Annual Report

# Company Profile

Masco Corporation is one of the world's largest manufacturers of brand name products for the home improvement and new home construction markets. The Company is also a leading provider of a variety of installed products and services, including insulation, for homebuilders.

Our products include faucets, kitchen and bath cabinets, paints and stains, bath and shower units, spas, showering and plumbing specialties, windows and decorative hardware.

## *On the COVER*

Brizo® Pascal® pull down faucet by Delta Faucet Company with hands-free and Smart-Touch™ Technology.

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## *Forward-looking STATEMENTS*

*Our Annual Report to Shareholders contains statements reflecting our views about the Company's future performance. These statements are "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from the results discussed in such forward-looking statements. For an explanation of various factors that may affect our performance, readers should refer to the "Risk Factors" section of our Annual Report on Form 10-K included herein, as well as the comment at the beginning of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in that Report. The Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.*

## *Non-GAAP DISCLOSURE*

The Company believes that certain non-GAAP (Generally Accepted Accounting Principles) 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 of ongoing operations. Non-GAAP performance measures and ratios should be viewed in addition to, and not as an alternative for, the Company's reported results under accounting principles generally accepted in the United States.

# To Our Shareholders



Richard A. Manoogian *Executive Chairman*  
Timothy Wadhams *President and Chief Executive Officer*  
*at the 2009 International Builders' Show*

## March 2009

***Amidst the economic turmoil of the past year, we continued to focus on the fundamentals of our business, building on our strengths for the future. The environment during the past two years has been one of the most challenging of our more than 75-year history. We have seen the financial markets in turmoil, consumer confidence decline and housing starts almost come to a halt. Both businesses and individuals have been hard hit.***

This past year, housing starts declined over 30 percent from 2007 and have declined over 50 percent from peak levels in 2005 to a level not seen in the last four decades. In addition, consumer confidence dropped

while unemployment rose. As a result of these macroeconomic developments, we have had to strategically redirect the business models for certain of our businesses and manage our business differently than in previous years. Since late 2006, we have closed 17 manufacturing facilities, reduced company-wide headcount by over 23,000 employees (representing 40 percent of our North American workforce) and reduced our installation branches by over 80 locations. And, in early 2009, after 50 consecutive years of increased dividends, we recommended to the Board of Directors that the quarterly dividend be reduced from \$.235 per common share to \$.075 per common share to ensure

our ability to fund our business operations and growth opportunities that may arise. Across our entire business, we made and continue to make the necessary adjustments to address a tough market environment.

Typically, in the past, when residential building slowed, remodeling of existing homes would increase. During 2008, that was not the case as remodeling activity also declined significantly which, together with the major downturn in new home construction, resulted in a sales decline for Masco of 17 percent.

In a challenging sales environment, strong companies look for opportunities to gain strategic advantages and drive long-term

growth. And, that is exactly what we did in 2008 and expect to do in 2009. We maintained a strong balance sheet to ensure our ability to fund our business operations. We continued to strengthen our relationships with our suppliers and our customers. And, we continued to build on the foundation of our leading brand names that are well-known and highly regarded in their respective markets.

### *A Time for INNOVATION*

For Masco, 2008 was not only a time to manage effectively in an economic downturn, but a time for increased innovation. For us, innovation is not limited to new products but encompasses changes in processes and manufacturing and different ways to bring our products to market. We are pleased to share with you some of the innovations that we successfully launched during the past two years. These innovations will enhance the way people live, work and play.

- Masco built its first major Delta<sup>®</sup> faucet plant 50 years ago. Today, we are still building on the quality and strength of our flagship Delta brand as we continue to introduce innovations that advance the industry. Delta Faucet Company recently unveiled its Diamond<sup>™</sup> Seal Technology, an exclusive water delivery system that ensures that once inside the

faucet, water is not in contact with potential metal contaminants, keeping water as pure as when it entered the faucet. This groundbreaking engineering also uniquely harnesses the durability of one of the hardest substances in existence and, when combined with our one-piece InnoFlex<sup>®</sup> waterway system, creates a leak-free valve that lasts up to 10 times longer than the industry standard.

- Energy efficiency, green building and environmental awareness continue to be important to consumers. We are committed to helping environmentally conscious consumers identify simple ways to incorporate sustainability into their everyday lives. Masco is leading the way in helping builders construct homes that offer energy efficiency, indoor environmental quality, water conservation and durability benefits. At the International Builders' Show (IBS), Masco's Environments For Living Certified Green<sup>SM</sup> home was featured in the 2009 Professional Builder Show Village. Our model home demonstrated a comprehensive green building solution, provided a learning experience for builders and displayed Masco's growing array of green building products. Our significant presence at IBS resulted

in substantial foot traffic and also allowed us to showcase our extensive product offerings.

- Behr continues to build on its brand strength and recently introduced Behr Premium Plus Ultra<sup>®</sup> interior paint, a paint and primer in one with NanoGuard<sup>®</sup> technology for a superior paint coating and improved protection against damage from sunlight, moisture, stains and dirt. Behr Premium Plus Ultra interior paint is available in the existing Behr colors and in an additional 380 colors. Distribution of this new product should be completed by late this summer.
- Hansgrohe continues to introduce exceptional collections of innovative bathroom design solutions by joining forces with internationally recognized designers and architects. In 2008, Hansgrohe's Axor<sup>®</sup> Citterio M<sup>™</sup> bathroom collection received an International award for outstanding design. With over 150 design awards and its ability to combine technological and aesthetic innovations, Hansgrohe is a pioneering force within the industry.
- One of our most exciting innovations is Verve<sup>™</sup> Living Systems, a revolutionary lighting control system principally for new homes that combines

radio frequency and energy-harvesting technologies to offer wireless lighting control. Verve Living Systems is certified by Underwriters Laboratories (UL), the trusted global certifier for tested products that meet stringent public safety requirements.

With this new system, homeowners can adjust the lighting throughout their home with the click of a switch and, because the switches are movable, homeowners can easily change switch locations. These features provide numerous lifestyle and energy-saving benefits. In addition, the Verve system reduces the construction cost of a new home by eliminating the need for wiring between light fixtures and light switches. We are currently working on additional applications for this groundbreaking technology that lower energy consumption and improve the at-home experience.

Across all of our business units, our leading brands are recognized for providing consumers with innovative solutions. Milgard's SmartTouch™ lock, engineered to provide homeowners with a simple, one-touch operation to close and lock the window, has been honored with the Arthritis Foundation Ease-of-Use Commendation. And, to address the needs of online shoppers, several of our divisions have

introduced dynamic, enhanced Web sites. Merillat's award-winning Web site provides state-of-the-art features that aid consumers in finding the right cabinet style based on their lifestyle and design preferences. Behr's updated Web site includes a virtual color center, a revolutionary interactive tool that enables customers to find and select colors and order samples shipped directly to their home.

### *Looking FORWARD*

Our fundamentals and strategies are sound and we are confident that we will be ready to capitalize on opportunities when the economy improves and the new home construction and home improvement markets rebound. We believe the long-term fundamentals for our markets are positive. Demographics support strong and sustainable long-term demand for home ownership. More than 70 percent of the single-family homes in the U.S. are more than 25 years old. Kitchens will continue to be remodeled, rooms painted and baths updated. Consumers will demand innovative and energy-efficient products—and we are ready to deliver. Our current strategic focus on new initiatives and innovation should position us to increase our sales and improve customer satisfaction.

Throughout the organization, our highly committed and talented employees will continue to make our cost structure more lean and to focus on cash generation to manage through these difficult times. We will also continue to invest in innovation and process and quality improvements to enhance our customers' experience which, we believe, will position us to take advantage of the recovery in our markets and drive long-term value for our shareholders.



Richard A. Manoogian  
*Executive Chairman*



Timothy Wadhams  
*President and  
Chief Executive Officer*

# Financial Brief

## Financial HIGHLIGHTS

Dollars in Millions, Except Per Common Share Data

	52-Year Growth Rate	5-Year Growth Rate	2008 vs 2007	2008	2007	2003	1956
Net Sales	14%	-1%	-17%	\$ 9,600	\$ 11,532	\$ 10,053	\$ 11
Operating Profit <sup>1,2,3</sup>	9%	-45%	-93%	\$ 74	\$ 1,054	\$ 1,536	\$ 1
(Loss) Income from Continuing Operations <sup>1,2,3,4</sup>	N/A	-185%	-177%	\$ (382)	\$ 494	\$ 844	\$ 0
(Loss) Income from Continuing Operations as a % of Net Sales <sup>1,2,3,4</sup>				-4%	4%	8%	4%
Per Common Share Data:							
(Loss) Income from Continuing Operations <sup>1,2,3,4</sup>	N/A	-191%	-182%	\$ (1.08)	\$ 1.32	\$ 1.72	\$ 0.00 <sup>5/16</sup>
Cash Dividends Paid	15%	10%	2%	\$ 0.92 <sup>1/2</sup>	\$ 0.91	\$ 0.58	\$ 0.00 <sup>1/16</sup>

Amounts exclude discontinued operations.

- The year 2008 included non-cash impairment charges for goodwill and other intangible assets aggregating \$445 million after tax (\$467 million pre-tax) and expense regarding the Masco Contractor Services litigation settlement of \$6 million after tax (\$9 million pre-tax).*
- The year 2007 included non-cash impairment charges for goodwill and other intangible assets aggregating \$100 million after tax (\$119 million pre-tax).*
- The year 2003 includes income regarding the Behr litigation settlement of \$45 million after tax (\$72 million pre-tax).*
- The years 2008, 2007 and 2003 included non-cash impairment charges for financial investments aggregating \$37 million after tax (\$58 million pre-tax), \$14 million after tax (\$22 million pre-tax) and \$12 million after tax (\$19 million pre-tax), respectively.*

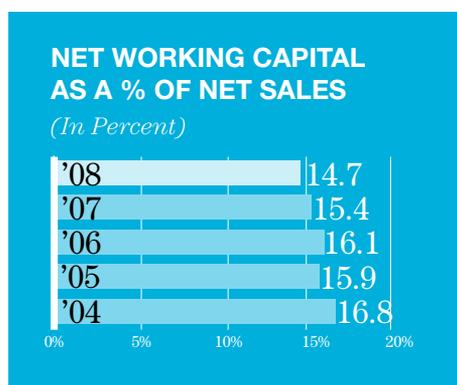
## Financial REVIEW

- Net sales from continuing operations for 2008 declined 17 percent to \$9.6 billion compared with the \$11.5 billion achieved in 2007.
- Net sales from North American operations, accounting for 78 percent of the Company's sales, declined 19 percent to \$7.5 billion in 2008. Net sales of \$2.1 billion from International operations, principally in Europe, declined six percent in 2008.
- Including non-cash impairment charges for goodwill and other intangible assets, (loss) income from continuing operations, as reported, was \$(382) million or \$(1.08) per common share and \$494 million or \$1.32 per common share for the years ended December 31, 2008 and 2007, respectively. Excluding non-cash impairment charges for goodwill and other intangible assets (\$1.26 per common share and \$.27 per common share in 2008 and 2007, respectively), income from continuing operations was \$.18 per common share and \$1.59 per common share for the years ended December 31, 2008 and 2007, respectively.
- Operating profit margins, as reported, were .8 percent in 2008 compared with 9.1 percent in 2007. Excluding impairment charges for goodwill and other intangible assets, operating margins were 5.6 percent in 2008 compared with 10.2 percent in 2007. Operating profit margins in 2008 were adversely impacted

by the accelerating decline in the new home construction market and a continued decline in consumer spending for home improvement products, as well as costs and charges related to business rationalizations and other initiatives.

## Capital EXPENDITURES

- Including discontinued operations, capital expenditures were \$200 million or 2.1 percent of sales in 2008 compared with \$248 million or 2.1 percent of sales in 2007. Including discontinued operations, depreciation and amortization expense was \$238 million in 2008 compared with \$248 million in 2007.



## Cash FLOW

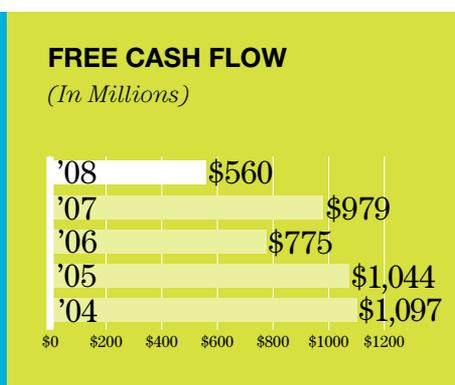
- In 2008, the Company achieved free cash flow (defined as cash from operations less capital expenditures and before dividends) of approximately \$560 million. For the five-year period ended December 31, 2008, the Company's free cash flow aggregated over \$4 billion.

## Working CAPITAL

- Working capital (defined as accounts receivable and inventories less accounts payable) as a percent of sales was 14.7 percent and 15.4 percent at December 31, 2008 and 2007, respectively.

## Liquidity

- The Company ended 2008 in a strong financial position with over \$1 billion in cash.
- In 2008, the Company generated \$58 million of cash from the net disposition of financial investments and \$179 million from the net disposition of certain businesses.



- The Company retired \$100 million of 5.75% notes on October 15, 2008, the scheduled maturity date.

**For additional financial information, please see our Annual Report on Form 10-K included herein.**

# Company Profile

## PLUMBING PRODUCTS

2008 net sales: **\$3.1 billion**  
32% of total net sales



The Company believes that it is a world leader in manufacturing plumbing products, including faucets; plumbing fittings and valves; showerheads and hand showers; bathtubs and shower enclosures; and spas. Masco has broad channel access globally through our premier brands.

## CABINETS AND RELATED PRODUCTS

2008 net sales: **\$2.3 billion**  
24% of total net sales



TVILUM-SCANBIRK

The Company believes that it is the largest U.S. manufacturer of kitchen and bath cabinetry. This segment includes assembled and ready-to-assemble kitchen and bath cabinets; home office workstations; entertainment centers; storage products; bookcases; and kitchen utility products.

## INSTALLATION AND OTHER SERVICES

2008 net sales: **\$1.9 billion**  
20% of total net sales



The Company believes that it is one of the largest providers of a variety of installed products for homebuilders across the United States. This segment includes the sale, installation and distribution of insulation, as well as other building products.

## DECORATIVE ARCHITECTURAL PRODUCTS

2008 net sales: **\$1.6 billion**  
17% of total net sales



The Company believes that it is the largest supplier of paints and stains to the North American do-it-yourself market. Masco has over 400 field service representatives serving our customers in North America. This segment also includes varnishes, water-proofing products and door, window and other hardware.

## OTHER SPECIALTY PRODUCTS

2008 net sales: **\$0.7 billion**  
7% of total net sales



The Company believes that it is the leading manufacturer of vinyl and fiberglass windows in the western United States. This segment includes windows, window frame components and patio doors; and staple gun tackers, staples and other fastening tools.

# Corporate Leadership

## Corporate OFFICERS

**William T. Anderson**  
*Vice President—Controller*

**Donald J. DeMarie, Jr.**  
*Executive Vice President and  
Chief Operating Officer*

**Maria C. Duey**  
*Vice President—Investor Relations  
and Communications*

**Charles F. Greenwood**  
*Vice President—Human Resources*

**Timothy J. LaRouere**  
*Vice President—Finance,  
North America Builder*

**John P. Lindow**  
*Vice President—Controller,  
Corporate Accounting*

**Richard A. Manoogian**  
*Executive Chairman*

**Karen R. Mendelsohn**  
*Vice President—Sales and Marketing*

**Timothy J. Monteith**  
*Vice President and  
Chief Information Officer*

**Sharon J. Rothwell**  
*Vice President—Corporate Affairs*

**Jai Shah**  
*Vice President—Finance,  
North America Retail/Wholesale*

**Barry J. Silverman**  
*Vice President, General  
Counsel and Secretary*

**John G. Szniewajs**  
*Vice President, Treasurer and  
Chief Financial Officer*

**Jerry Volas**  
*Group President—  
North America Retail/Wholesale*

**Thomas Voss**  
*President—Masco Europe*

**Timothy Wadhams**  
*President and  
Chief Executive Officer*

**W. Timothy Yaggi**  
*Group President—  
North America Builder*

**Gary L. Yezbick**  
*Vice President—Innovation  
and Sustainability*

## Board of DIRECTORS

**Dennis W. Archer**<sup>1,3</sup>  
*Chairman  
Dickinson Wright PLLC*

**Thomas G. Denomme**<sup>1,3</sup>  
*Retired Vice Chairman and  
Chief Administrative Officer  
Chrysler Corporation*

**Anthony F. Earley, Jr.**<sup>1,2</sup>  
*Chairman and  
Chief Executive Officer  
DTE Energy Company*

**Verne G. Istock**<sup>1,2,3</sup>  
*Retired Chairman and President  
Bank One Corporation*

**David L. Johnston**<sup>2,3</sup>  
*President and Vice Chancellor  
of the University of Waterloo  
in Ontario, Canada*

**J. Michael Losh**<sup>1,2</sup>  
*Retired Chief Financial Officer  
and Executive Vice President  
General Motors Corporation*

**Richard A. Manoogian**  
*Executive Chairman  
Masco Corporation*

**Lisa A. Payne**<sup>1,3</sup>  
*Vice Chairman and  
Chief Financial Officer  
Taubman Centers, Inc.*

**Mary Ann Van Lokeren**<sup>2,3</sup>  
*Retired Chairman and  
Chief Executive Officer  
Krey Distributing Company*

**Timothy Wadhams**  
*President and  
Chief Executive Officer  
Masco Corporation*

<sup>1</sup> Member of Audit Committee

<sup>2</sup> Member of Organization and  
Compensation Committee

<sup>3</sup> Member of Corporate Governance  
and Nominating Committee

# Certifications

Timothy Wadhams and John G. Sznewajns have provided certifications to the Securities and Exchange Commission as required by Section 302 of the Sarbanes-Oxley Act of 2002. These certifications are included as Exhibits 31.a and 31.b to the Company's Form 10-K, included herein, for the year ended December 31, 2008.

As required by the New York Stock Exchange (NYSE), on June 3, 2008, Timothy Wadhams submitted the annual Chief Executive Officer certification to the NYSE that stated that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

## *Responsibility for* **FINANCIAL STATEMENTS**

Management is responsible for the fairness and integrity of the Company's consolidated financial statements. In order to meet this responsibility, management maintains formal policies and procedures that are consistent with high standards of accounting and administrative practices, which are regularly communicated within the organization. In addition, management maintains a program of internal auditing within the Company to examine and evaluate the adequacy and effectiveness of established internal controls related to Company policies, procedures and objectives. The report of the Company's Independent Registered Public Accounting Firm (included in the accompanying Form 10-K) states their opinion on the Company's consolidated financial statements and the effectiveness of internal controls over financial reporting, based on audits conducted in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). The Audit Committee of the Board of Directors meets periodically with both management and the Independent Registered Public Accounting Firm to provide oversight with respect to the Company's financial reporting process and system of internal controls.

# Shareholder Information

## *Executive OFFICES*

Masco Corporation  
21001 Van Born Road  
Taylor, MI 48180-1340  
Phone: 313-274-7400, Fax: 313-792-4177

## *Independent Registered PUBLIC ACCOUNTING FIRM*

PricewaterhouseCoopers LLP  
PricewaterhouseCoopers Plaza  
1900 St. Antoine  
Detroit, MI 48226-2263

## *Stock Exchange INFORMATION*

Masco Corporation's common stock is traded on the New York Stock Exchange under the symbol MAS.

## *Internet CONTACT*

Current information about Masco Corporation can be found by visiting our Web site at [www.masco.com](http://www.masco.com) or you contact us via e-mail at [webmaster@mascohq.com](mailto:webmaster@mascohq.com).

## *Investor Relations CONTACT*

Additional information about the Company is available without charge to shareholders who direct a request to:

Maria C. Duey  
Vice President—Investor Relations  
and Communications  
Masco Corporation  
21001 Van Born Road  
Taylor, MI 48180-1340

## *Annual Meeting of SHAREHOLDERS*

The 2009 Annual Meeting of Shareholders of Masco Corporation will be held at the executive offices of the Company on May 12, 2009 at 10:00 a.m., E.D.T.



This Annual Report is printed on Finch Papers which are certified by the Forest Stewardship Council (FSC). Both papers, Finch Fine with 10% post consumer recycled fiber and Finch Casa Opaque made with 30% post consumer recycled fiber, are also certified by the Sustainable Forestry Initiative (SFI), which focuses on integrating "the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil, water and air quality."

## *Transfer Agent, Registrar and DIVIDEND DISBURSING AGENT*

Answers to many of your shareholder questions and requests for forms are available by visiting the BNY Mellon Shareowner Services Web site at [www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd).

### **Send Certificates For Transfer to:**

BNY Mellon Shareowner Services  
P.O. Box 358015  
Pittsburgh, PA 15252-8015

### **Dividend Reinvestment Plan:**

Masco Corporation has appointed BNY Mellon Shareowner Services to serve as agent for its Dividend Reinvestment Plan. All inquiries regarding the Plan should be sent to:

Masco Corporation  
c/o BNY Mellon Shareowner Services  
P.O. Box 358035  
Pittsburgh, PA 15252-8035

### **Shareholder inquiries regarding lost certificates should be directed to:**

BNY Mellon Shareowner Services  
P.O. Box 358317  
Pittsburgh, PA 15252-8317

### **Duplicate mailings and other inquiries:**

Multiple shareholders who reside at one address and hold their shares through a bank or broker may receive only one Annual Report and Proxy Statement. This "householding" procedure reduces duplicate mailings and Company expenses. Shareholders who wish to opt out of householding should contact their bank or broker.

Shares owned by one person, but held in different forms of the same name, may result in duplicate mailings of shareholder information at added expense to the Company. Please notify BNY Mellon Shareowner Services in order to eliminate such duplication.

### **General inquiries and address changes should be directed as follows:**

BNY Mellon Shareowner Services  
480 Washington Blvd.  
Jersey City, NJ 07310-1900  
Phone: 866-230-0666 (in the U.S.)  
201-680-6685 (outside of the U.S.)  
800-231-5469 (hearing impaired – TTD phone)  
E-Mail Address: [shrelations@bnymellon.com](mailto:shrelations@bnymellon.com)

*Masco products were showcased at various trade shows throughout 2008 and at the 2009 International Builders' Show.*



# MASCO

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313.274.7400

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