ELLI & ASSOCIATES
ofessional Law Corporation
1014 16th Street/ P.O. Box 3212
Modesto, CA 95353
Telephone: (209) 521-6260

STATE OF CALIFORNIA

ENERGY RESOURCES CONSERVATION

AND DEVELOPMENT COMMISSION

CALIFORNIA LIVING & ENERGY (a division of William Lilly & Associates, Inc.) and DUCT TESTERS, INC.,

Complainants,

vs.

MASCO CORPORATION and ENERGYSENSE, INC.,

Respondents.

Docket Number 08-CRI-01

COMPLAINANTS EXHIBIT LIST

DOCKET
08-CRI-01
DATE
RECD. MAR 18 2009

1. April 23, 2008 letter from Carol A. Davis to William Staack.
2. CHEERS Board Meeting Minutes of April 17, 2008, June 17, 2008 and August 13, 2008.
3. E-Mail dated July 7, 2006 from Tom Hamilton to Brad Townsend; Dale Camany, Dave Bell, David Short, and Rick Davenport.
4. MASCO letter from Kenneth G. Cole to Robert Scott of CHEERS, dated September 5, 2008.
5. CHEERS letter dated July 25, 2008 to Timothy Williams, et al.
6. E-Mail dated July 9, 2008 from Robert Scott to Dave Hegarty.
7. E-Mail dated June 12, 2008 from Dave Hegarty to Robert Scott.
8. E-Mail dated May 15, 2008 from Robert Scott to Dave Hegarty.
9. Letter to "Tav" from David Bell of EnergySense.
10. Coast Building Products listing of products and brands.
11. E-Mail dated May 1, 2008.
12. E-Mail dated February 14, 2008 from Bill Lilly to Tav Commins.
13. E-Mail dated February 13, 2008 from Dave Hegarty to Bill Lilly and others.

14. E-Mail deated April 29, 2008 from Robert Scott to Dave Hegarty.

15. California Energy Commission letter dated May 15, 2007 to David R. Bell.

16. Response to the Complainant's First Ammended Subpoena to Produce Business Records from the California Energy Commission dated March 4, 2009.

17. Redacted copy of Work Order Listing of Sacramento Building Products.

18. Bylaws of EnergySense, Inc., Gale Industries Inc., Schmid Insulation and MASCO Contractor Service.

19. Redacted copy of HERS Testing Sheet.

20. Redacted copy of work order of Coast Building Products dated January 22, 2009.

21. Redacted Purchase Order of Coast Building Productions dated 9/11/07.

22. Redacted copy of Sacramento Building Products proposal.

23. Redacted copy of Coast Building Products Job Order dated July 9, 2007.

24. RESPONDENTS MASCO CORPORATION'S AND ENERGYSENSE, INC.'S RESPONSES TO COMPLAINANTS' SUPPLEMENTAL INTERROGATORIES AND REQUEST FOR PRODUCTION OF DOCUMENTS.

25. CHEERS Invoices dated 5/18/2005.

26. CHEERS Invoice dated 6/1/2007 to EnergySense.

27. MASCO CORPORATION 2007 Annual Report.

28. MASCO CORPORATION U.S. Securities and Exchange Commission Form 10-K for Fiscal Year Ended December 31, 2007.

29. AHC Group, Inc. internet workshop notice dated June 20-21, 2007.

30. EnergySense Online Resources page.

31. EnergySense Partner List Results.

32. E-Mail Partner Results for ENERGY STAR.

33. EFFICIENCY COMMITTEE ORDER SETTING DATES FOR PREHEARING CONFERENCE AND HEARING, AND REQUIRING THE PRODUCTION OF DOCUMENTS AND ADDITIONAL INFORMATION dated October 2, 2008.

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34. The Seven Pillars of the Environments for Living Program.

35. Directors/Offices Report as of 10/14/2008 and Statement of Corporate Leadership.

36. E-Mail from Tav Commins to Bill Lilly dated July 14, 2006.

37. E-Mail from Bill Pennington to Bill Lilly dated October 6, 2002.

38. E-Mail from Bill Lilly to Bill Pennington dated 3/31/2006.

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Tab 1

Carol A. Davis
ATTORNEY AT LAW

April 23, 2008

William Staack, Senior Staff Counsel
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512

Dear Mr. Staack:

I am legal counsel to California Home Energy Efficiency Rating Services (CHEERS), and am writing to you at the request of its board of directors. CHEERS has received a formal complaint regarding a possible conflict of interest under the California Home Energy Rating System (HERS) Program. The complaint is basically the same one addressed in detail in the enclosed letter dated May 15, 2007 from you to David R. Bell, President of EnergySense.

CHEERS requests specific guidance from the California Energy Commission regarding this important matter. If a determination has been made that a conflict of interest does or does not exist, please so advise us. If a determination has not yet been made, please advise us when it will be made.

Thank you in advance for your written response.

Best personal regards,

Carol A. Davis
CHEERS Legal Counsel

cc: William Pennington, ERDA
Tav Commins, ERDA

3009 Palos Verdes Drive West, Palos Verdes Estates, CA 90274

(310) 541-7555
Fax (310) 541-5957

Tab 2

Minutes – CHEERS Board Meeting – April 17, 2008

Masco/EnergySense – Robert discussed the conflict of interest provisions in the Title 20 HERS Regulations as it pertains to the EnergySense raters. He said that a formal complaint has been drafted and is expected to be filed with the CEC. Board agreed CEC needs to make a ruling on this issue, and CHEERS will act in accordance with such ruling.

Action Item:

CHEERS to send letter, either from Robert or Carol, CHEERS Legal Counsel, asking CEC for guidance on the issue. Robert will also respond to Dave Hegarty, who filed a complaint with CHEERS.

Minutes – CHEERS Board Meeting - June 17, 2008

Robert recapped the MASCO/Energy Sense conflict of interest issue. Carol sent a letter to the CEC requesting guidance on the matter, and received a reply setting forth the CEC position that the CEC will take action only if a formal complaint is filed with the CEC. It is CHEERS' understanding that a formal complaint will be filed in the near future, and CHEERS looks forward to resolution of this issue.

Minutes – CHEERS Board Meeting - August 13, 2008

Robert discussed the formal complaint filed with the CEC by California Living & Energy and Duct Testers, Inc. against MASCO Corporation and EnergySense, Inc. alleging conflict of interest. We received a copy as an interested party. MASCO/EnergySense has 21 days to respond. Robert sent certified letters to the EnergySense Raters asking them to confirm compliance with their CHEERS rater agreements. The board confirmed the appropriateness of CHEERS not commenting on an ongoing legal proceeding.

NOTE: Robert = Robert Scott, CHEERS Executive Director
Carol = Carol Davis, CHEERS Legal Counsel

Tab 3

Subject	**Conflict of Interest - CEC**
From	Tom Hamilton
To	Brad Townsend; Dale Camany; Dave Bell; David Short; Rick Davenport
Sent	Friday, July 07, 2006 8:03 AM

Good Morning all,
I had my call yesterday with the CEC in response to the issues brought up by Bill Lilly at California Living. On the call was Bill Pennington (who we always need to keep happy) and Tav Cummings (CEC bureaucrat). I need to do some work on the Coast Building Products projects, need to make sure Coast raters are not doing the verifications on Coast jobs.

The short answer is I need some feedback from you. I played down the conflict of interest as much as possible and then hit them with the new arrangement of Energy Sense. Even with this new organizational structure, Bill is concerned about the conflict of interest. I told them this is going to be a totally separate company, and is part of an international company MASCO. MASCO is so big and publicly traded even the hint of not doing things correctly would raise red flags at MASCO. I indicated Energy Sense went through legal at MASCO to be created. Energy Sense is being created as a business unit since MASCO views HERS verifications as a viable business opportunity, not in any way a means to circumvent the regulations.

Having said all of this to Bill he is going to refer this issue to CEC legal folks, which is what we want. We don't want Bill to make arbitrary decisions.

My thought – we want to get ahead of the curve on this. Don't let Bill go into his legal people and tell them his version of the story, and have CEC legal folks agree. MCS draft something to CHEERS that explains the organizational structure and the process that MCS went through to create Energy Sense (i.e. Separate company, separate financials etc). If something is drafted by MCS legal people indicating how Energy Sense adheres to the requirements that would be extremely helpful. The regulations are not clear, so if your legal folks interpret the regulations a certain way, that would provide more credence to your position. I will provide a rough draft of the issues that should be addressed.

I know that Dale is on vacation, so maybe when he gets back we can have a conference call to discuss this further if warranted.

Let me know what you think.
Thanks,
Tom Hamilton

CHEERS - California Home Energy Efficiency Rating Services

Tom Hamilton
Executive Director

CHEERS

CHEERS
9400 Topanga Canyon Blvd.,
Suite 220
Chatsworth, CA 91311

thamilton@cheers.org

toll free: 800 4 CHEERS

Tab 4

MASCO

MASCO CORPORATION

Kenneth G. Cole
Associate Corporate Counsel &
Counsel - Installation & Other Services
Masco Corporation
21001 Van Born Road
Taylor, MI 48180
Direct - (313) 792-6314
Facsimile - (313) 792-6430
Ken_Cole@Mascohq.com

VIA: EMAIL & REGULAR U.S. MAIL

September 5, 2008

Robert A. Scott
Executive Director
California Home Energy Efficiency Rating Services
20422 Beach Blvd., Suite 235
Huntington Beach, CA 92648

Dear Mr. Scott:

I am writing on behalf of EnergySense, Inc. to respond to letters dated July 25, 2008, sent by you to EnergySense's General Manager, Jaime Padron, and to the other EnergySense raters regarding a complaint received by California Home Energy Efficiency Rating Services (CHEERS). As I understand it, the complaint alleges violations by EnergySense's raters of the conflict of interest provisions specified in the California Home Energy Rating System (HERS) Program (Cal. Code of Regs., Title 20, §§ 1670-1675) when they inspect for purposes of Title 24 insulation installed by other Masco companies. I appreciate your extension of time to respond to your letter through today.

As we discussed in our telephone conversation a few weeks ago, California Living & Energy filed a similar complaint with the California Energy Commission (CEC) against EnergySense and Masco Corporation. EnergySense and Masco have filed answers to the complaint (which were served on CHEERS, among others) and expect the CEC to schedule a hearing shortly. As I told you previously and as outlined in the answers, EnergySense and Masco believe that EnergySense and its raters comply fully with the conflict of interest provisions at issue. We are preparing to present a more detailed response at the upcoming CEC hearing, and it is our expectation that, after the hearing, the CEC will reach the same conclusion.

In the meantime, I would like to respond to your letter and the complaint filed with CHEERS with a more detailed summary explaining why EnergySense and its raters

comply with the HERS conflict of interest requirements. I ask that you defer, however, any decision regarding the complaint CHEERS received until after the CEC proceedings are concluded. I appreciate your understanding and cooperation in these overlapping proceedings.

With respect to these complaints, it is our position that EnergySense and its individual raters operate in full compliance with the HERS conflict of interest provisions when they inspect insulation installed by other Masco companies. EnergySense's raters take very seriously their important role in ensuring the effective implementation of the Title 24 energy efficiency program requirements, and they fully recognize and embrace the need for raters to act independently of the builders and installers whose work they inspect.

Masco Corporation, EnergySense's parent company, carefully considered the HERS conflict of interest requirements when it created EnergySense two years ago. As I mentioned during our earlier conversation, in early 2006, we sought and received guidance from your predecessor, Tom Hamilton, regarding the appropriateness of the corporate structure and operating plan established for EnergySense. Significantly, Tom expressed his view that EnergySense's structure and business plan, which included the expectation that EnergySense raters would perform Title 24 inspections and ratings of insulation installed by separate Masco subsidiaries, would be consistent with the conflict of interest provisions.

Energy Sense's structure and operation was also explained to the CEC. In his October 2006 letter, David Bell, EnergySense's president, provided a detailed explanation of EnergySense and its corporate structure, ownership and operation to Tav Cummins of the CEC. Then again, in an August 2007 telephone conversation with Bill Staack and Tav Cummins (of the CEC), Masco and EnergySense provided the same and additional detailed information describing EnergySense and its operation. After this conversation, the staff did not voice any objections regarding EnergySense's compliance with the HERS program requirements, and did not ask EnergySense to change its operation or structure in any way.

Specifically, to the extent EnergySense has inspected and/or tested insulation installed by other Masco companies, it has done so within the parameters of the relevant statutes. Ca. Code of Regs., Title 20, § 1673(i) requires a rater to be an "independent entit[y]" from the builder or contractor that performs the installation. An "independent entity" is defined as "having no financial interest in, and not advocating or recommending the use of any product or service as a means of gaining increased business with," a builder or subcontract installer. Cal. Code of Regs. § 1671. A "financial interest" is defined as "an ownership interest, debt agreement, or employer/employee relationship. . . ." Cal. Code of Regs. § 1671.

These requirements are narrow by design and do not impose a blanket prohibition against all inspections conducted on installation work performed by a related entity.

Services Group, Inc. ("BSG"), American National Services, Inc. ("ANS"), and Masco Contractor Services of California, Inc. ("MCS of CA"). Consistent with the terms of the relevant statutes, EnergySense has no financial interest in and operates independently of those Masco subsidiaries:

- There is no direct or indirect ownership or subsidiary relationship between EnergySense and BSG, ANS or MCS of CA.
- EnergySense has no debt agreements with BSG, ANS or MCS of CA.
- EnergySense shares no employees with BSG, ANS or MCS of CA.
- Although EnergySense, BSG, ANS and MCS of CA are fully owned by Masco Corporation, the subsidiary companies operate as independent entities, while the parent company is a holding company that provides administrative and high-level corporate governance support.

Similarly, EnergySense's raters are employees of EnergySense, not BSG, ANS, MCS of CA or Masco, and they have no financial interest in the builders or contractors, including any of these other Masco companies, and do not advocate the use of any product or service of any of builder or contractor, including any of these other Masco companies, as a means of gaining increased business with any of them.

Moreover, the business relationships between EnergySense and the other Masco subsidiaries are governed by contract and not by the parent company. Notably, the contracts EnergySense has entered into with BSG, ANS and MCS of CA establish EnergySense as an independent contractor accountable directly to the builders (not the installers) for the rating services it provides. Under the terms of the contracts, EnergySense is prohibited from recommending or referring work to the other Masco subsidiaries, and neither EnergySense nor the other subsidiaries is obligated to use the other. Additionally, the bid prices for EnergySense's rating services are set by EnergySense without input by the installer subsidiaries, while the installers act as conduits for builder orders, invoices and payments to and from EnergySense without compensation from EnergySense. In addition, EnergySense raters are obligated to provide impartial, independent, true, accurate and complete test results and to comply with all applicable laws, codes and standards, including Title 24.

This kind of contractual arrangement is consistent with the permissible "three-party contracts" described in Example 2-7 in Section 2 of the 2005 Residential Compliance Manual. Such three-party contracts enable builders and home owners to realize beneficial cost savings resulting from heightened operating efficiencies of builders, installers and raters alike, while also avoiding prohibited conflicts of interest.

We believe the results of CHEERS' routine monitoring of EnergySense's raters demonstrate the thoroughness, accuracy and independence of the services provided by the

We believe the results of CHEERS' routine monitoring of EnergySense's raters demonstrate the thoroughness, accuracy and independence of the services provided by the raters. Indeed, as you explained, CHEERS' quality assurance inspections and monitoring have not identified any significant issues with the quality or integrity of the work performed by the EnergySense raters. Furthermore, the independence of EnergySense's raters is clearly illustrated by the actions taken by EnergySense raters to reject installation work performed by other Masco subsidiaries that failed to meet Title 24 standards. The raters' commitment to reject substandard installation work is unaffected by the identity of the installing company.

As a result, in response to your request, EnergySense's raters are proud to reaffirm their compliance with their current CHEERS® Title-24/Residential New Contruction Rater Renewal Agreements, including the conflict of interest provisions. Enclosed you will find copies of the CHEERS Rater Renewal Agreement signed by each of the following EnergySense raters: David Bair, Corey Bernhardt, Israel Calleros, Matthew Jordan, Jaime Padron, Joshua Perez, and Timothy Williams.

I hope that the information provided in and with this letter is sufficient to resolve any compliance concerns you might have. We would also appreciate any information or other assistance you might be able to provide that we can present in the upcoming CEC hearing. Please let me know if you have additional questions or suggestions. We look forward to continuing to work with CHEERS and to discussing this matter with you at your convenience.

Sincerely,

Kenneth G. Cole

Enclosures

Tab 5

July 25, 2008

Timothy Williams CCN23394974
EnergySense
1441 Coldwell Ave #D
Modesto, California 95350

YOUR ATTENTION IS REQUIRED REGARDING THE FOLLOWING MATTER

Dear Joshua:

I am informing you that CHEERS has received a complaint against EnergySense, charging violation of the conflict of interest provisions specified in the California Code of Regulations, Title 20, Chapter 4, Article 8, Sections 1670 through 1675 (California Home Energy Rating System Program). The complaint alleges that EnergySense is a subsidiary of Masco Corporation and as such some of the work performed by raters employed by EnergySense violates the independent entity definition and is not allowable under State law. These allegations are not necessarily directed at the performance of individual raters in the employ of EnergySense, however, if such a relationship exists between EnergySense and Masco Corporation or one or more Masco subsidiaries, then the right of any EnergySense rater to perform Title24 HERS verification under CHEERS' authority to certify raters, may be in question. It is CHEERS' responsibility to confirm that Raters whom we certify are in compliance with these requirements.

The specific issue in question relates to the installation of measures required for compliance with Title 24 by a contractor that is related to the HERS Rater. For example: a rater who verifies Quality Installation of Insulation cannot be related to the installing contractor. This rule applies to all HERS-verified features and all raters providing verification services involving compliance with Title 24.

Your Rater certification through CHEERS is as an individual and the agreement that you signed includes the following provisions:

- HERS RATER shall comply with all applicable federal, state and local laws and regulations.

- HERS RATER acknowledges that HERS RATER has read California Code of Regulations, Title 20, Chapter 4, Article 8, Sections 1670-1675 ("Regulations"), a copy of which is attached (attachment 5) and incorporated herein by reference, understands the Regulations and agrees to provide home energy rating, field verification services and diagnostic testing services in compliance with the Regulations. HERS RATER agrees to comply with the conflict of interest requirements as specified in Section 1673(i) of the Regulations.

A copy of your signed agreement is enclosed.

For your reference, the restricted relationships are described in the following information extracted from Title 20. These apply to verifications performed by all Raters certified by CHEERS:

- Section 1671. Definitions.

o Financial Interest means an ownership interest, debt agreement or employer/employee relationship. Financial interest does not include ownership of less than 5% of the outstanding equity securities of a publically traded corporation.

o Independent Entity means having no financial interest in, and not advocating or recommending the use of any product or service as a means of gaining increased business with, firms or persons specified in Section 1673(i).

- Section 1673. Requirements for Providers, subsection (i) (2).

o Providers and raters shall be independent entities from the builder and from the subcontractor installer of energy efficiency improvements field verified or diagnostically tested.

A RESPONSE TO THIS INQUIRY IS REQUIRED!

Using the enclosed VERIFICATION OF RATER AGREEMENT, CHEERS requests that you verify acceptance of the terms and conditions of your agreement with CHEERS as specified in the latest Rater Agreement. A copy of your most recent signed agreement is enclosed. If you are unable or unwilling to verify acceptance of the terms and conditions of you agreement with CHEERS then your certification will be suspended pending further review and action.

YOU MUST REPLY WITHIN 10 DAYS FROM THE DATE OF RECEIPT OF THIS NOTICE TO AVOID SUSPENSION.

If you have any questions or require additional information, please contact me at (800) 424-3377.

Sincerely,

Robert A. Scott, CHEERS
Executive Director

Attachments

VERIFICATION OF RATER AGREEMENT

I have reviewed a copy of the current *CHEERS® TITLE-24/RESIDENTIAL NEW CONSTRUCTION RATER RENEWAL AGREEMENT* that contains my signature and verify that I am in compliance with its terms and conditions.

Joshua Perez

Printed Name

Signature

Date

July 25, 2008

Joshua Perez CCNJP392868
EnergySense
1441 Coldwell Ave #D
Modesto, California 95350

YOUR ATTENTION IS REQUIRED REGARDING THE FOLLOWING MATTER

Dear Joshua:

I am informing you that CHEERS has received a complaint against EnergySense, charging violation of the conflict of interest provisions specified in the California Code of Regulations, Title 20, Chapter 4, Article 8, Sections 1670 through 1675 (California Home Energy Rating System Program). The complaint alleges that EnergySense is a subsidiary of Masco Corporation and as such some of the work performed by raters employed by EnergySense violates the independent entity definition and is not allowable under State law. These allegations are not necessarily directed at the performance of individual raters in the employ of EnergySense, however, if such a relationship exists between EnergySense and Masco Corporation or one or more Masco subsidiaries, then the right of any EnergySense rater to perform Title24 HERS verification under CHEERS' authority to certify raters, may be in question. It is CHEERS' responsibility to confirm that Raters whom we certify are in compliance with these requirements.

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Robert A. Scott, CHEERS
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Joshua Perez

Printed Name

Signature

Date

July 25, 2008

Matthew Jordan CCNMJ193610
EnergySense
1441 Coldwell Ave #D
Modesto, California 95350

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Sincerely,

Robert A. Scott

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Joshua Perez

Printed Name

Signature

Date

July 25, 2008

Israel Calleros CCNIC188228
EnergySense
1441 Coldwell Ave #D
Modesto, California 95350

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Sincerely,

Robert A. Scott, CHEERS
Executive Director

Attachments

VERIFICATION OF RATER AGREEMENT

I have reviewed a copy of the current *CHEERS® TITLE-24/RESIDENTIAL NEW CONSTRUCTION RATER RENEWAL AGREEMENT* that contains my signature and verify that I am in compliance with its terms and conditions.

Joshua Perez
Printed Name

Signature

Date

July 25, 2008

Corey Bernhardt CCN92963136
EnergySense
1441 Coldwell Ave #D
Modesto, California 95350

YOUR ATTENTION IS REQUIRED REGARDING THE FOLLOWING MATTER

Dear Joshua:

I am informing you that CHEERS has received a complaint against EnergySense, charging violation of the conflict of interest provisions specified in the California Code of Regulations, Title 20, Chapter 4, Article 8, Sections 1670 through 1675 (California Home Energy Rating System Program). The complaint alleges that EnergySense is a subsidiary of Masco Corporation and as such some of the work performed by raters employed by EnergySense violates the independent entity definition and is not allowable under State law. These allegations are not necessarily directed at the performance of individual raters in the employ of EnergySense, however, if such a relationship exists between EnergySense and Masco Corporation or one or more Masco subsidiaries, then the right of any EnergySense rater to perform Title24 HERS verification under CHEERS' authority to certify raters, may be in question. It is CHEERS' responsibility to confirm that Raters whom we certify are in compliance with these requirements.

The specific issue in question relates to the installation of measures required for compliance with Title 24 by a contractor that is related to the HERS Rater. For example: a rater who verifies Quality Installation of Insulation cannot be related to the installing contractor. This rule applies to all HERS-verified features and all raters providing verification services involving compliance with Title 24.

Your Rater certification through CHEERS is as an individual and the agreement that you signed includes the following provisions:

- HERS RATER shall comply with all applicable federal, state and local laws and regulations.

- HERS RATER acknowledges that HERS RATER has read California Code of Regulations, Title 20, Chapter 4, Article 8, Sections 1670-1675 ("Regulations"), a copy of which is attached (attachment 5) and incorporated herein by reference, understands the Regulations and agrees to provide home energy rating, field verification services and diagnostic testing services in compliance with the Regulations. HERS RATER agrees to comply with the conflict of interest requirements as specified in Section 1673(i) of the Regulations.

A copy of your signed agreement is enclosed.

For your reference, the restricted relationships are described in the following information extracted from Title 20. These apply to verifications performed by all Raters certified by CHEERS:

- Section 1671. Definitions.

o Financial Interest means an ownership interest, debt agreement or employer/employee relationship. Financial interest does not include ownership of less than 5% of the outstanding equity securities of a publically traded corporation.

o Independent Entity means having no financial interest in, and not advocating or recommending the use of any product or service as a means of gaining increased business with, firms or persons specified in Section 1673(i).

- Section 1673. Requirements for Providers, subsection (i) (2).

o Providers and raters shall be independent entities from the builder and from the subcontractor installer of energy efficiency improvements field verified or diagnostically tested.

A RESPONSE TO THIS INQUIRY IS REQUIRED!

Using the enclosed VERIFICATION OF RATER AGREEMENT, CHEERS requests that you verify acceptance of the terms and conditions of your agreement with CHEERS as specified in the latest Rater Agreement. A copy of your most recent signed agreement is enclosed. If you are unable or unwilling to verify acceptance of the terms and conditions of you agreement with CHEERS then your certification will be suspended pending further review and action.

YOU MUST REPLY WITHIN 10 DAYS FROM THE DATE OF RECEIPT OF THIS NOTICE TO AVOID SUSPENSION.

If you have any questions or require additional information, please contact me at (800) 424-3377.

Sincerely,

Robert A. Scott, CHEERS
Executive Director

Attachments

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Joshua Perez
Printed Name

Signature

Date

July 25, 2008

David Bair CCN87994523
EnergySense
1441 Coldwell Ave #D
Modesto, California 95350

YOUR ATTENTION IS REQUIRED REGARDING THE FOLLOWING MATTER

Dear Joshua:

I am informing you that CHEERS has received a complaint against EnergySense, charging violation of the conflict of interest provisions specified in the California Code of Regulations, Title 20, Chapter 4, Article 8, Sections 1670 through 1675 (California Home Energy Rating System Program). The complaint alleges that EnergySense is a subsidiary of Masco Corporation and as such some of the work performed by raters employed by EnergySense violates the independent entity definition and is not allowable under State law. These allegations are not necessarily directed at the performance of individual raters in the employ of EnergySense, however, if such a relationship exists between EnergySense and Masco Corporation or one or more Masco subsidiaries, then the right of any EnergySense rater to perform Title24 HERS verification under CHEERS' authority to certify raters, may be in question. It is CHEERS' responsibility to confirm that Raters whom we certify are in compliance with these requirements.

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o Independent Entity means having no financial interest in, and not advocating or recommending the use of any product or service as a means of gaining increased business with, firms or persons specified in Section 1673(i).

- Section 1673. Requirements for Providers, subsection (i) (2).

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Robert A. Scott, CHEERS
Executive Director

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I have reviewed a copy of the current *CHEERS® TITLE-24/RESIDENTIAL NEW CONSTRUCTION RATER RENEWAL AGREEMENT* that contains my signature and verify that I am in compliance with its terms and conditions.

Joshua Perez

Printed Name

Signature

Date

Tab 6

Robert Scott

From: Robert Scott
Sent: Wednesday, July 09, 2008 6:54 AM
To: Dave Hegarty
Subject: RE: Masco, Energy Sense and Conflict of Interest rules
Attachments: MASCO Complaint; MASCO follow-up; RE: Masco; RE: MASCO Revised; MASCO Complaint

Dear Dave:

I have informed members of the CHEERS Board of Directors of your most recent email.

I am surprised of your claim that CHEERS has not responded in writing to your complaint. Given that your formal complaint was made via email I have responded to the issue in kind. I am attaching the following email messages sent to you on these dates: 4/29, 5/2, 5/15, 6/9, 6/12 and have listed them for you below:

4/29 – SUBJECT: MASCO Complaint – Acknowledgement of receipt of your complaint
5/2 – SUBJECT: MASCO Follow-up – Forward of CHEERS Letter to CEC
5/15 – SUBJECT: RE: Masco – Status
6/9 – SUBJECT: RE: Masco Revised – Acknowledgement of revised Lilly complaint to CEC
6/12 – SUBJECT: MASCO Complaint – Recommendations for changes to revised Lilly complaint to CEC

Please let me know if you would like these in hard copy, as well as and future communications on this matter sent to you by mail.

I want to point out that there are two complaint processes referenced in Title 20. The one you have invoked with CHEERS was originally intended to address consumer-related problems as opposed to business-to-business complaints. Thus it is not specifically responsive to this situation, which has clearly identified the need for more clear procedures for the latter type complaint.

Title 20 1673 (h)(3) Complaint response system. Each provider shall have a system for receiving complaints. The provider shall respond to and resolve complaints related to ratings and field verification and diagnostic testing services and reports. Providers shall ensure that raters inform purchasers and recipients of ratings and field verifications and diagnostic testing services about the complaint system. Each provider shall retain all records of complaints received and responses to complaints for five years after the date the complaint is presented to the provider

CHEERS takes the specific allegations in your complaint seriously and the process we must follow must consider the one which the CEC has set out for themselves in Title 20, which in summary is:

1. Complaint proceedings address alleged violations of statutes, orders, decisions or regulations of the CEC; investigation proceedings address the applicability of statutes, etc. So we are talking complaint proceedings.
2. Any person may file a complaint; it's filed with the General Counsel of the CEC and under penalty of perjury.
3. Within 30 days after receipt of complaint, it's dismissed or served on respondent.
4. Within 30 days after service, an answer is required.
5. Within 90 days after receipt of complaint, a hearing commences before an assigned committee or hearing officer.
6. Within 14 days after hearing, "to the extent reasonably possible," a proposed decision is made available.
7. Matter is scheduled for consideration by full commission "at the earliest reasonable date."

I assure you that CHEERS is interested in resolving this situation so that we can get on with the real object of our work.

I am away from the office for the remainder of the week and will not be available until Monday.

Best Regards,

Tab 7

Robert Scott

From: DAVE HEGARTY [davehegarty@ducttesters.com]
Sent: Thursday, June 12, 2008 6:59 PM
To: Robert Scott
Subject: RE: MASCO Complaint

Robert: file this with your complaint:

In the spring of this year 2008, I had a meeting with Renovo Homes and their representative Vicky, the Superintendent for Renovo Rosenthol and PG&E Representative Evonne present with the MASCO/ Energy Sense representative. In this meeting he bragged about MASCO/Energy Sense ties and that the value that they (Renovo) would be receiving because of MASCO's buying power. He repeatedly said that the CEC had given them a "pass" on the verification issue that I brought up as "conflict of interest" and as the meeting went on and questions arose about the "conflict of interest" spurred on by me, of course, he bragged that he had a Letter from the CEC's Bill Pennington as to Masco/Energy Sense validity. He eve told Vicky his office would produce that letter for her so that she could be comfortable with Masco Energy Sense.
We continued to discuss this issue since he brought up the letter and promised me he would give it to me as well. knew he was unable to produce this letter and with more questions he go more irritated. According to Vicky, she has never received such a letter and the pricing that she gave me on the Energy Sense side was 50% below the best price I have ever seen on a verification contract. I was also shocked to hear him discuss ALL of the Masco products with the Renovo group and how to benefit from their "group pricing". So you see we have firsthand knowledge and I came home to tell Doug and everyone I could about the outrageous behavior of this guy and the boldness of Masco.

Put that in your Lawyers hands. Dave

From: Robert Scott [mailto:rscott@cheers.org]
Sent: Thursday, June 12, 2008 9:34 AM
To: davehegarty@ducttesters.com; Scott Johnson
Subject: MASCO Complaint

Dave & Scott:

Sorry for the delay in getting back to you, but I wanted to get legal counsel before I responded. CHEERS' goal is to see resolution to this once and for all. From what we saw in both the complaint and attached documents, the reference in the complaint, Part III, Item E., that Lilly provides does little to address resolving the problem. I have been advised by CHEERS Legal Counsel that this part of the complaint's argument is weak. Additionally, because this reference is listed among the 'instances' of MASCO and Energy Sense's violation of the code, it puts a former employees who can no longer speak to the issue in an awkward position, plus it diverts attention from the real issue. If you can get Lilly to remove Part III, Section E., then CHEERS will be in a much better position to work proactively with the CEC in setting precedent on the issue of conflict of interest in the regulations.

Here is the CHEERS position:

On April 12, 2006, Bill Lilly sent an email to Tav Commins re: 3rd party violation; it included the following:

> **"Below is Tom's response...**
> **Coast Building products does have raters that are certified by CHEERS. Concerning the projects you mention nothing is happening with them at this point. Pulte has been releasing the bid specs for the projects and Pulte is reviewing the submitted bids for their projects. Coast Building products is fully aware of the regulatory requirements and supports the intent of the CEC regulations. Due to their internal quality assurance Coast Building products is pursuing all appropriate approaches including, but not limited to the "three-party agreement" to ensure their client (Pulte) realizes they are receiving a valuable service, not just a service that is an expense."**

Tab 8

Robert Scott

From: Robert Scott
Sent: Thursday, May 15, 2008 8:02 AM
To: davehegarty@ducttesters.com
Subject: RE: Masco

Hello Dave:

I was out yesterday, thus my late reply.

I would appreciate your confidence a bit longer. It is a bit more complicated because the CEC says they have not received any official or formal complaint and have no guidance for us on the issue. This is an important issue that I want to resolve and it high on my list. The CHEERS attorney is not available until next week therefore I am unable to get counsel on the matter until then.

Best Regards,

Robert A Scott, CHEERS
Executive Director

From: DAVE HEGARTY [mailto:davehegarty@ducttesters.com]
Sent: Wednesday, May 14, 2008 2:24 PM
To: Robert Scott
Subject: Masco

What's up with the Masco situation, have you heard anything or should I keep my mouth shut for a while longer? Dave

"Verifying Energy Efficiencies Accurately"

Dave Hegarty
Principle

DuctTesters
615 13th Street
Modesto, California 95354

davehegarty@ducttesters.com
AIM: davedbhgrty

tel: 209 579-5000
mobile: 209 595-8090

Tab 9

Dear Tav:

I write in response to your recent question about EnergySense, Inc.

EnergySense is a subsidiary of Masco Corporation and is in the process of being registered to do business in California. Masco is a multi-billion dollar public company and a leading provider of home improvement and building products and of installation services for insulation and other products. EnergySense was formed to provide inspection, testing, and other consulting services to builders, general contractors and subcontractors in residential and commercial construction. In California, these services include arranging for and administering energy ratings and energy efficiency field verification and diagnostic testing for purposes of EnergyStar, California's Title 24, and other energy efficiency programs offered by builders and others (such as the *Environments For Living*® program offered by another Masco subsidiary). EnergySense provides these services using raters who are appropriately trained and qualified and, for purposes of Title 24 testing and inspection, who are certified by and registered with CHEERS.

A sister Masco Company of EnergySense is Masco Services Group Corp. ("MSG"). MSG is a leading services company that, through its subsidiaries, installs insulation and a variety of other building products from over 300 locations across the United States, including in California. In California, these installation services are provided through its subsidiaries, Builder Services Group, Inc. and American National Services, Inc. and their respective subsidiaries. These various subsidiaries are sister companies of EnergySense. From time to time, EnergySense raters will inspect and/or test for purposes of Title 24 compliance installation work performed by a California branch of one of these sister companies (a "Branch"). In these instances, EnergySense would provide its services under, depending on the builder's preference, a contract with the builder; a three-party contract between the builder, the Branch and itself; or a contract with the Branch, which, in turn, would contract with the builder to provide installation services and independent inspection and/or testing services. The last situation is very much like a California Energy Commission (CEC) approved three-party contract, but allows the builder greater convenience and efficiency. EnergySense recently entered into a master subcontract agreement with Builder Services Group, Inc. and American National Services, Inc. for those instances where the builder selects the last alternative.

Regardless of which option is selected, we believe that EnergySense can inspect and/or test installation work performed by a Branch for purposes of Title 24 consistent with the requirements set forth in 20 CCR 1673(i). According to Section 1673(i), the rater (the person performing the inspection or test) must be an "independent entit[y]" from the builder and subcontractor installer of the energy efficient improvement being tested or inspected. In Section 1671, an "independent entity" is defined as "having no financial interest in, and not advocating or recommending the use of any product or service as a means of gaining increased business with," the builder or subcontract installer of the energy efficient improvement being tested or inspected. Section 1671 also defines "financial interest" as "an ownership interest, debt agreement, or employer/employee relationship. Financial interest does not include ownership of less than 5% of the outstanding equity securities of a publicly traded corporation."

Under these definitions, EnergySense's raters are independent entities from any Branch. They have no financial interest in any Branch – that is, they have no ownership interest in or debt agreement with, and are not employees of, any Branch. Moreover, they do not advocate or recommend to any builder that it use any Branch as a means by which to gain more business with that branch. Indeed, EnergySense's subcontract agreements with Builder Services Group, Inc. and American National Services, Inc. expressly preclude EnergySense and its raters from doing so. Similarly, under these definitions, EnergySense, as opposed to its raters, is an independent entity from any Branch. EnergySense, like MSG, is a direct subsidiary of Masco and, as such, has no financial interest in either MSG or any Branch.

More importantly, EnergySense is confident that its raters can, and will, inspect the work of a Branch just as they would for the work of any other installer – objectively and independently. EnergySense expects its raters to conduct their tests and inspections honestly, independently, and in compliance with all applicable regulations and RESNET guidelines regardless of who the customer or installer may be. Indeed, the raters must do so in order to maintain their HERS certification according to agreements the rater signs with the HERS provider. In addition, EnergySense operates from locations separate from the Branches, and the branch managers of the EnergySense locations, who have direct oversight responsibility for the daily activities and operations of the raters, do not have any direct oversight or management responsibility for any Branch. Similarly, the managers of the Branches do not have any oversight or management responsibility for any EnergySense rater.

The independence and objectivity required and expected of EnergySense's raters in these situations is further demonstrated by the master subcontracts between EnergySense and Builder Services Group, Inc. and American National Services, Inc. These contracts provide that: EnergySense use only trained, qualified, experienced and certified raters who are registered with a HERS provider approved by the California Energy Commission As extra oversight, CHEERS regularly monitors the test and inspection results of EnergySense's raters and, therefore, is in a position to identify and address any concern with the independence of an EnergySense rater in these situations. In this regard, earlier

this year when he was the Executive Director of CHEERS, Tom Hamilton expressed his view that EnergySense's structure and operation as outlined above would be consistent with the conflict of interest requirements of 20 CCR 1673(i) and the related regulations.

In sum, if EnergySense raters test or inspect any work of a Branch, they can do so in compliance with the requirements of 20 CCR 1673(i), and EnergySense's operation is designed to ensure independent and objective test and inspection results from its raters in these situations. In addition, since MASCO is a large publicly traded company, MASCO has dramatically more oversight than most companies and would not risk its reputation to gain business.

I hope that my explanation has been helpful. Please do not hesitate to contact me if you would like to discuss this matter further or would like additional information.

Sincerely,

David R. Bell
President – EnergySense
(386) 763-4955

Tab 10

COAST
BUILDING
PRODUCTS
Division of MASCO CONTRACTOR SERVICES

CERTIFIED CONTRACTOR NAHB RESEARCH CENTER

LINE OF PRODUCTS	BRAND OF PRODUCTS
Installed by COAST Building Products	
INSULATION	Owens Corning, Certainteed, Icynene, Insulation
FIREPLACE	Superior, Lennox, Avalon
GARAGE DOOR & OPENER	Northwest Door, Wayne Dalton, Clopay Door (Opener-Liftmaster, Wayne Dalton)
MANTEL	Hearthco
CABINETS	Merillat *
PAINT	BEHR Paint*
GUTTER	Seamless Steel, Aluminum Gutter
FIRE CAULKING	Hilti
EFL - Green Environments for Living	Insulation Inspection Services GE Ecomagination Green
HERS TESTING Home Energy Rating System	Testing and Inspection Services*

The Package

* Indicates Manufacturers products, additional products includes Milgard Windows, Delta Faucets, Kwikset Corp.

0000055

Tab 11

On Thu, May 1, 2008 at 6:25 AM, G. LeBron <galo@wredco.net <mailto:galo@wredco.net> > wrote:

By the way, with regards to the Masco issue, I was reading the CEC HERS May 2008 document that is being discussed at the meeting tomorrow, and I noticed the following statement on Page 63. Though this seems to apply to existing homes, it mirrors their policy with regards to new homes ratings (though I still want to get further clarification on the performance contracting exception). Perhaps they have not read their own statements…..

Separation of HERS Raters from Home Improvement Services

As mentioned in the previous section, California statute prevents home inspectors from engaging in

home improvements for homes they have inspected (for a home transaction) for a period of 12

months. In addition, the HERS regulations for Title 24 compliance field verification (see Title 20

§1673(i)) require that HERS providers be financially independent from HERS raters and that both

providers and raters be financially independent from the builder or the contractor responsible for

home improvements. An underlying policy with the California HERS program is that the

organization or person doing the rating should not be financially associated with a company or

organization that is in the business of making money on home improvements.

RESNET has a different method of consumer protection. RESNET providers and raters may have a

financial interest in the builder or home improvement contractor, as long as this information is

disclosed. Figure 34 is a form used by RESNET raters to disclose this information.

The Commission believes it is important to address conflict of interest by maintaining separation of

financial interests between raters and home improvement contractors except in the special case of

Building Performance Contractors.

Tab 12

Robert Scott

From: Bill Lilly [bill.lilly@califliving.com]
Sent: Thursday, February 14, 2008 10:03 PM
To: Tav Commins
Cc: Bill Mattinson; Bill Dakin; bretkillings@yahoo.com; Bert Sanchez; airapparent@comcast.net; Allen Amaro; donn@greenhomesavvy.com; donmull@ducttesters.com; DBlanke@semprautilities.com; Gordon Beall; golferjohn@starstream.net; geoedb@idiom.com; Gary Wollin; gmahoney@cityofdavis.org; hvacconsultant@msn.com; hoffmaninsulation@yahoo.com; hersrater@sbcglobal.net; info@greatvalley.org; jamader@rhainc.com; jennifer@hersolar.com; Linda Murphy; Linda Murphy; lsmt24 @comcast.net; mikbet@sti.net; mhosier@ci.manteca.ca.us; mike@calcerts.com; mwood@cityofdavis.org; miguel@whainc.com; mart@energysoft.com; Pepper; paul@northbayenergy.com; passe.jonathan@epa.gov; Robert Scott; Dave Hegarty; Randy Chaffey; Lexine Lilly; Larry; Jeff; Mark Gallant; G. LeBron
Subject: Masco violations

Tav
Are you Serious? That question has been answered a long time ago. Per yours and Bill Pennington's request the CEC lawyers have been involved in this for over 18 months. This investigation has been going since March 10, 2005 per our conversations at that time. Dave Bell VP of MASCO even wrote you a letter stating "Energy Sense, like MSG is a direct subsidiary of MASCO...". Tom Hamilton (this has been going on for a long time) of CHEERS asked Doug Beamon & Associates to investigate this. Doug completed his investigation turned it over to you with no major discrepancy with what I told you. also, I personally hired a Private Investigator from San Francisco to verify this. One of his conclusions was "It was determined that Masco Contractor Services owns 27 insulation companies in California, as follows: He listed all of them. (talk about a monopoly). You sent a Letter to MASCO titled "Possible Conflict...". You actually received e-mail from one of the largest Builders in the Country confirming the relationship. What about the Masco insurance cert?

On a separate but equally egregious issue was MASCO's EFL Program which Bill Pennington wrote in 2002 "Independent third party field verification is required for measures in the Standards that require such verification. The MASCO quality control process does not satisfy this requirement." I response is"da"!

there are other items we have reviewed in the past several years that illustrate their violation of the Standards.

Now, what does it take to call a violation, a violation? What more needs to be done for the California Energy Commission to act? This has dragged on for to long

sincerely

Bill Lilly

Tab 13

Robert Scott

From: DAVE HEGARTY [davehegarty@ducttesters.com]
Sent: Wednesday, February 13, 2008 7:25 PM
To: 'Bill Lilly'; 'Bill Mattinson'; 'Bill Dakin'; bretkillings@yahoo.com; 'Bert Sanchez'; airapparent@comcast.net; 'Allen Amaro'; donn@greenhomesavvy.com; donmull@ducttesters.com; DBlanke@semprautilities.com; 'Gordon Beall'; 'Gordon Beall'; golferjohn@starstream.net; geoedb@idiom.com; 'Gary Wollin'; gmahoney@cityofdavis.org; hvacconsultant@msn.com; hoffmaninsulation@yahoo.com; hersrater@sbcglobal.net; info@greatvalley.org; jamader@rhainc.com; jennifer@hersolar.com; 'Jim Wheeler'; lamader@rhainc.com; 'Linda Murphy'; 'Linda Murphy'; lsmt24@comcast.net; mikbet@sti.net; mhosier@ci.manteca.ca.us; mike@calcerts.com; mwood@cityofdavis.org; miguel@whainc.com; mart@energysoft.com; 'Pepper'; paul@northbayenergy.com; passe.jonathan@epa.gov; robhammon@consol.ws; Robert Scott
Subject: FW: FW: Masco

From: Tav Commins [mailto:Tcommins@energy.state.ca.us]
Sent: Wednesday, February 13, 2008 11:21 AM
To: DAVE HEGARTY
Subject: Re: FW: Masco

My lawyer wants to know what evidence you have that Sacramento Building Products, Western Insulation and Coast are all MASCO companies?

Tav

>>> "DAVE HEGARTY" <davehegarty@ducttesters.com> 2/7/2008 11:46 AM >>>
Tav; for your files and add one more rater as concerned for their (Masco) violation of conflict of interest. If everyone would contact the CEC about this, the issue would be brought to a head. dave

-----Original Message-----
From: George J. Nesbitt [mailto:geoedb@idiom.com]
Sent: Thursday, February 07, 2008 10:57 AM
To: DAVE HEGARTY
Cc: Tcommins@energy.state.ca.us
Subject: Re: Masco

Great job.
When I went through the 2005 update training there were several MASCO Raters in the class. I don't know if previously they only owned product manufacturing. The subject of there buying install companies came up and the conflict of Rating jobs with installations by MASCO subcontractors. I guess I now know how it was (wasn't) handled.
All MASCO HERS Verifications should be disqualified, and given to truly independent Raters.

DAVE HEGARTY wrote:

Tav: sorry this took so long to get out. I am writing you to remind you that Masco's Energy Sense is doing all of D R Horton work for Rating and that, in Manteca, they (MASCO) are rating their own work as in Sacramento Building Products installation of insulation and D R Horton's QII measures. They (Masco) are doing the rating for Western Insulation and Coast as well. All Companies owned and operated by MASCO and profits relating to these Companies flow into the MASCO conglomeration. I am in possession of evidence in the form of movies and still pictures of the work being done at D R Horton, which shows the quality of the work being done and does not meet the QII measures standards from my perspective. It is with the greatest of concern and frustration that I call your attention to this matter. It is our greatest desire to call attention to this travesty and our understanding of CEC rules and guidelines and that MASCO is being allowed to continue to RATE for themselves and the clients that they can and do sway with energy measures to capture the insulation work of those clients. Why else would Masco spend the time, energy and money to develop a portion of their business that brings the least profit to their entire business model. Their interests reside in the reduction of cost to their client (and themselves), if they are used as the rater as opposed to legitimate raters with no secondary interest, and the protection Masco gets from SELF RATING in connection with sampling. Has Masco documented any time when they have asked the installation side to REWORK or has not passed the QII measures? The pictures I have, prove at least one thing, and that is that QII is not being taken seriously by Masco when it is their own installation (when one of their own companies is doing the install). We asked the Builder to see the CF6R forms and the CF4R forms for the installation, he did not understand or recognize our request. Of course this could have been a cautious reaction to priority information, but I was convinced that he had no knowledge of the forms. It is a daily task and expense for our Rater companies to get the CF6R forms for each house under a Masco insulation contract. We struggle everyday to get them to respond to CEC rules on CF6R forms for each house to provide sample groupings and "tested" houses. It is Masco employees' knowledge that no one comes behind them to insure proper insulation installation and to fill out the CF6R for each house, just interview any onsite employee, they will let you know that never happens. Does Masco possess any documentation of failure or correction, and doesn't CEC rules and interpretations require it as a "perceived compromise" candidate.

At the very least, the quotes below are appropriate and provide a clear intent, especially under the Providers and their responsibility to "increased scrutiny" of such raters. Thanks for listening. Could CEC respond to this situation in a clear and timely manner? We appreciate your attention to this matter.

HERS raters are expected to be objective, independent, third parties when they are fulfilling

their duties as field verifiers and diagnostic testers. In this role they are serving as special

inspectors for local building departments. By law HERS raters must be independent entities

from the builder or subcontractor installer of the energy efficiency features being tested and

verified. They can have no financial interest in the installation of

Tab 14

Robert Scott

From: Robert Scott
Sent: Tuesday, April 29, 2008 8:58 AM
To: davehegarty@ducttesters.com
Subject: MASCO Complaint

Hello Dave:

I have received your formal complaint regarding Energy Sense and have initiated a proceeding to address the issues you have identified. CHEERS will provide a complete response to you, including a statement of actions that may be pursued as a result of our investigation. You should allow up to 30 days for us to respond.

Thank you for your help and interest in ensuring a strong HERS industry.

Best Regards,

Robert Scott, CHEERS
Executive Director
(714) 500-4455

Tab 15

CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET
SACRAMENTO, CA 95814-5512
www.energy.ca.gov

May 15, 2007

Mr. David R. Bell
President – EnergySense
14655 Northwest Freeway, Suite 102
Houston, TX 77040

RE: Possible Conflict of Interest under the California Home Energy Rating System (HERS) Program

Dear Mr. Bell:

Thank you for your letter (which was not dated) responding to the California Energy Commission staff's (henceforth referred to as staff) concerns that a potential conflict of interest under the California Home Energy Rating System Program (HERS) exists between EnergySense and its parent company Masco Corporation and one or more of Masco subsidiaries. Under the HERS regulations, California Code of Regulations, title 20, sections 1670 through 1675, there is no conflict of interest if (1) providers[1] are legally independent entities from the raters[2] who provide field verification and diagnostic testing, and (2) providers and raters are legally independent entities from the builders, and subcontractors who install energy efficiency improvements that are field verified and or diagnostically tested under the HERS program.

From the facts provided in your letter, it appears that EnergySense would be considered a rater under the HERS regulations (Cal. Code Regs., tit. 20, § 1671) because it provides the raters to conduct site inspection for data collection, field verification, and diagnostic testing required for demonstrating compliance with the Title 24 energy performance standards. Also as stated in your letter, EnergySense uses raters that are certified by and registered with CHEERS, a HERS provider under California Code Regulations, title 20, section 1671.

It is staff's understanding that EnergySense is a subsidiary under corporate control of parent company, Masco Corporation and that Masco Corporation, has subsidiaries under its corporate control (e.g., Masco Services Group Corporation, Builder Services Group, Inc. and American National Services) that participate in the HERS Program. It is staff's

[1] Providers means an organization that administers a home energy rating system in compliance with .. [the HERS Regulations] Cal. Code Regs., tit. 20, §1671.

[2] Rater means a person performing the site inspection and data collection required to produce a home energy rating or the field verification and diagnostic testing required for demonstrating compliance with the Title 24 energy performance standards. Cal. Code Regs., tit. 20, § 1671

understanding that the nature of the Masco Corporation structure operating under the HERS program is as follows

1. The parent Masco Corporation is a supplier of energy efficiency products that are installed under the HERS program;

2. The subsidiary Masco Services Group Corporation and its subsidiaries, Builder Services Group, Inc. and American National Services, are installers of energy efficient products that include products produced by parent Masco Corporation, and

3. The subsidiary, EnergySense, provides raters to conduct site inspection, data collection, HERS field verification, and diagnostic testing required for demonstrating compliance with the Title 24 energy performance standards of products produced by the parent Masco Corporation, and installed by subsidiaries Builder Services Group, Inc. and American National Services.

A conflict of interest exists under California Code of Regulations, title 20, section 1673 (i)(2) if a rater is not an independent entity from the builder and from the subcontractor who install energy efficiency improvements under the HERS program.[3] An independent entity as defined in CCR title 20 section 1671 means having no financial interest in and not advocating or recommending the use of any product or service as a means of gaining increased business.[4] Financial interest means an ownership interest, debt agreement, or employer/employee relationship, but does not include ownership of less that 5% of the outstanding equity securities of a publicly traded corporation. (Cal. Code Regs., tit. 20, §1671)

Without supplementary documentation provided to the contrary, it appears that a violation of the conflict of interest provision under the HERS regulations could exist between EnergySense and various entities under the Masco Corporation structure because of the following presumptions:

1. Parent company Masco Corporation, a supplier of energy efficiency products installed under the HERS program, has a financial interest as defined under California Code of Regulations, title 20, section 1671 in its subsidiaries EnergySense (a HERS rater), Masco Services Group Corporation (a HERS installer) and its subsidiaries, Builder Services Group, Inc (a HERS installer) and American National Services (a HERS installer).

---

[3] Cal. Code Regs., tit. 20, §1673 (i) Conflict of Interest.

. . .

(2) Providers and raters shall be independent entities from the builder and from the subcontractor installer of energy efficiency improvements field verified or diagnostically tested. Emphasis added.

[4] Cal. Code Regs., tit. 20, §1671 Independent Entity means having no financial interest in, and not advocating or recommending the use of any product or service as a means of gaining increased business with, firms or persons specified in Section 1673(i). Note: The definitions of "independent entity" and "financial interest," together with Section 1673(i), prohibit conflicts of interest between providers and raters, or between providers/raters and builders/subcontractors

0000005

2 As a subsidiary of parent Masco Corporation, EnergySense may not be operating as an independent entity as defined in California Code of Regulations, title 20 section 1671 because it is under corporate control of its parent Masco Corporation, and EnergySense may advocate and recommend the use of Masco's energy efficiency products installed under the HERS program or advocate and recommend the use of Masco Corporation subsidiaries that install energy efficiency products under the HERS program.

Please provide staff with the corporate structure that exists legally between parent Masco Corporation and subsidiary EnergySense with reference to the potential conflict of interest under the HERS regulations. Such information should include but is not limited to the following:

1. Percent of corporate voting shares that the parent, Masco Corporation, owns directly or indirectly through one or more of its subsidiaries, of subsidiary EnergySense.

2. Names of any persons that are employed as a board members and/or officers in more that one of the companies under the Masco Corporation structure including the parent and any subsidiaries that provide products or services under the HERS program.

3. Does parent Masco Corporation have corporate authority over its subsidiary EnergySense for any of the following?

   (a) Selecting the directors.
   (b) Appointing a majority of the members of the governing board.
   (c) Using or directing the use of the individual assets of EnergySense to achieve the objective of the parent.
   (d) To examine the financial reports and business plans, and to otherwise hold EnergySense and its management accountable for performance expectations of the parent.
   (e) Have voting control provisions in EnergySense's articles of incorporation or provisions that prohibit amendments of the articles without the approval of the parent.

4. Did parent Masco Corporation prepare any of the bylaws defining the designation and authority of officers, their terms of office, and their removal (for cause or no cause) for EnergySense?

5. Do EnergySense's bylaws include procedures whereby parent Masco Corporation elects and removes directors or prohibit amendments of its bylaws without the parent Masco Corporations approval?

7 Does parent Masco Corporation, or any of its subsidiaries have a debt agreement with EnergySense?

8. Does parent Masco Corporation, or any of its subsidiaries have any employees who are also employees of EnergySense?

0000006

9. Does parent Masco Corporation or any of its subsidiaries (other than EnergySense) mention EnergySense in any written, verbal, radio or television advertising or information? If so, please submit a copy of that information.

10. Does EnergySense mention parent Masco Corporation or any of its subsidiaries in any written, verbal, radio or television advertising or information? If so, please submit a copy of that information

11. Does parent Masco Corporation or any of its subsidiaries (other than EnergySense) provide customer referrals to EnergySense? If so, please submit examples of the full range of referral messages that are provided.

12. Does EnergySense provide customer referrals to parent Masco Corporation or any of its subsidiaries? If so, please submit examples of the full range of referral messages that are provided.

13. Does parent Masco Corporation or any of its subsidiaries (other than EnergySense) mention in bid responses or price sheets any services provided by EnergySense? If so, please submit copies of these documents.

14. Does EnergySense mention in bid responses or price sheets any services provided by parent Masco Corporation or any of its subsidiaries? If so, please submit copies of these documents.

If you have any questions concerning this letter and the staff's request for supplemental information, please contact Bill Pennington, Building and Appliance Office, at (916) 654-4939.

Sincerely,

Bill Staack

William Staack
Senior Staff Counsel

WS/jm

cc: Dick Ratliff, Staff Counsel IV
William Pennington, ERDA
Tav Commins, ERDA

0000007

Tab 16

STATE OF CALIFORNIA

ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

Complaint / Request for Investigation Regarding Energy Sense / MASCO	)	Docket Number 08-CRI-01

RESPONSE TO THE COMPLAINANTS' FIRST AMMENDED SUBPOENA TO PRODUCE BUSINESS RECORDS FROM THE CALIFORNIA ENERGY COMMISSION

The following is the response of the California Energy Commission ("Energy Commission") to the Complainants'[1] First Amended Application for Subpoena to Produce Business Records, as it relates to documents requested from the Energy Commission[2]:

1. *Initial complaints, including but not limited to, those lodged by either California Living and Energy and/or Duct Testers (hereinafter the "Complainants");*

   Response of the Energy Commission: Any and all such known and retained complaints are contained in the formal complaint filed by California Living & Energy and Duct Testers, dated June 5, 2008, and the supporting documents contained therein (collectively "Complainants' formal complaint")[3]; and 2) in the documents attached as Attachment A to this response.

[1] Complainants in this proceeding are California Living and Energy and Duct Testers, Inc. The pleading filed by Complainants identifies them in the heading as "Petitioners." This Decision and Order correctly identifies them as "Complainants."

[2] The responses exclude written and electronic communications made subsequent to the filing, on July 9, 2008, of the formal complaint by the Complainants, as such communications were either posted to the docket in this proceeding or disclosed to both parties.

[3] Those documents can be found at the following link on the Energy Commission's website -- www.energy.ca.gov/title24/enforcement/2008-CRI-01/documents/2008-07-31_COMPLAINT_TN-47306.PDF.

2. *All written and/or electronic communications between the CEC and the Complainants regarding the Alleged HERS Conflict of Interest Violations;*

   Response of the Energy Commission: Any and all such known and retained communications are contained in 1) the Complainants' formal complaint; and 2) the documents attached as Attachment A to this response.

3. *All written correspondence between the CEC and Masco, or any other Masco-related entity, regarding the Alleged HERS Conflict of Interest Violations, including but not limited to, American National Services, Inc., Builders Services Group, Inc., Masco Contractor Services of California, Inc., Energy Sense, Inc., Coast Insulation, Western Insulation, Sacramento Building Products Company or any other Masco-related entity for whom Energy Sense, Inc. performs HERS field verification and testing services;*

   Response of the Energy Commission: Any and all such known and retained communications consist of 1) an undated letter from David R. Bell, President of Energy Sense, to Tav Commins of the Energy Commission; and 2) a letter from Energy Commission Senior Staff Counsel William Staack to David R. Bell, dated May 17, 2007. Both documents are attached as Attachment B.

4. *Any and all CEC Board minutes, reports, notes, or other memoranda, written or electronic, generating by the CEC upon completion of the CEC's investigation into the Alleged HERS Conflict of Interest Violations;*

   Response of the Energy Commission: The Energy Commission has not completed any investigation into the Alleged HERS Conflict of Interest Violations. The instant proceeding is the only pending investigation into the Alleged HERS Conflict of Interest Violations.

5. *Any and all correspondence between the California Home Energy Efficiency Rating Service ("CHEERS") and the CEC and/or agents, representatives and employees of the CEC concerning the Alleged HERS Conflict of Interest Violations;*

   Response of the Energy Commission: The only such known and retained correspondence consist of 1) a letter from Carol Davis, CHEERS Legal Counsel, to William Staack, dated April 23, 2008; and 2) a letter from Energy Commission Senior Staff Counsel Dennis L. Beck, Jr., to Carol Davis, dated April 28, 2008. Both documents are attached as Attachment C.

6. *Any and all documents concerning funds provided by Masco or any other Masco-related entity for purposes of education and/or training for CHEERS raters, including, but not limited to, any special training classes conducted by, for, or on behalf of Masco or a Masco-related entity , including, but not limited to, American National Services, Inc., Builders Services Group, Inc., Masco Contractor Services of California, Inc., Energy Sense, Inc., Coast Insulation, Western Insulation, Sacramento Building Products Company;*

   Response of the Energy Commission: No such documents are known and retained by the Energy Commission. Any such documents that exist would be retained by CHEERS.

7. *Any and all CEC Board minutes or any other documents, notes or other written memoranda in which the topic of the employees, agents or representatives of Masco or any other Masco-related entities, American National Services, Inc., Builders Services Group, Inc., Masco Contractor Services of California, Inc., Energy Sense, Inc., Coast Insulation, Western Insulation, Sacramento Building Products Company, becoming CHEERS certified Raters were discussed;*

   Response of the Energy Commission: No such documents are known and retained by the Energy Commission. Pursuant to Section 1673 of Title 20 of the California Code of Regulations, HERS raters are trained and certified by the HERS providers. Any such documents that exist would be retained by CHEERS.

8. *Any and all CEC Board minutes or any other documents, notes or other written or electronic memoranda concerning any discussion, consultation or conversation regarding attempts by Masco or any other Masco-related entity, including, but not limited to, American National Services, Inc., Builders Services Group, Inc., Masco Contractor Services of California, Inc., Energy Sense, Inc., Coast Insulation, Western Insulation, Sacramento Building Products Company, to obtain HERS Rating certification; and*

   Response of the Energy Commission: No such documents are known and retained by the Energy Commission. Pursuant to Section 1673 of Title 20 of the California Code of Regulations, HERS raters are trained and certified by the HERS providers. Any such documents that exist would be retained by CHEERS.

9. *Any and all CEC Board minutes or any other documents, notes or other written or electronic memoranda concerning any discussion, consultation or conversation regarding any de-certification of HERS Raters employed by Masco or any other Masco-related entity, including, but not limited to, American National Services, Inc., Builders Services Group, Inc., Masco Contractor Services of California, Inc., Energy Sense, Inc., Coast Insulation, Western Insulation, Sacramento Building Products Company.*

Response of the Energy Commission: No such documents are known and retained by the Energy Commission. Pursuant to Section 1673 of Title 20 of the California Code of Regulations, HERS raters are trained and certified (and thus also de-certified) by the HERS providers. Any such documents that exist would be retained by CHEERS.

Dated: March 4, 2009

DENNIS L. BECK, JR.
Senior Staff Counsel
California Energy Commission

Attachments:

Attachment A – 157 pages
Attachment B – 7 pages
Attachment C – 3 pages

Tab 17

WORK ORDER: 0071069

ORDER TYPE: Work Order
ORIG. ORDER:
PROJECT #: [redacted]
NAME: [redacted]
PLAN #: [redacted]
CUSTOMER #: [redacted]
NAME: [redacted]
JOB ADDRESS: [redacted]

LOT #: [redacted]
BLOCK #:
SEQUENCE #:
PHASE:
SALESMAN #: 215FISD
NAME: DUSTIN FISHER
SALES TYPE: EPT
PO#1 / PO#2:
JOB PHONE: [redacted]
JOB SUPERVISOR:
LOCALITY/RES:
WORK STATE:

DATE ORDERED: 01/07/09
DATE PROMISED:
OCIP CONTRACT#:

BLDG AMOUNT: [redacted]
BATT/OTHER AMT:
CONTRACT AMT:
TAX JURISDICTION: CAKERNS
SALES TAX AMT:
CEILING HEIGHT: 0.0
UNIT TYPE: NA
NUMBER OF UNITS:

STREET DIRECTIONS: [redacted]

INSTALLER INSTRUCTIONS: TXV INSPECTION ON ALL SYSTEMS
EER INSPECTION ON ALL SYSTEMS
BILL DESCRIPTION: ES [redacted]

**** BATT/OTHER MATERIAL ****

LINE	AREA	ITEM NUMBER	DESCRIPTION	STOCK UofM	EST/ ORDER QUANTITY	EST/ ORDER UofM
[redacted]		LABOR	LABOR ONLY	EACH	[redacted]	SF

Tab 18

BYLAWS
OF
ENERGYSENSE, INC.

ARTICLE I
Stockholders

Section 1. Annual Meeting. The annual meeting of the stockholders of the corporation shall be held at such place within or outside of the State of Delaware as may from time to time be designated by the Board of Directors, on the 15th day of December in each year (or if said day be a legal holiday, then on the next succeeding business day), at 9:00 in the forenoon, or at such other place, date and time for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

Section 2. Special Meetings. Special meetings of the stockholders may be held upon the call of the President or Secretary or the Board of Directors at such place outside of the State of Delaware as may be stated in the notice thereof, and at such time and for such purpose as may be stated in the notice. It shall be the duty of the President or the Secretary or the Board of Directors to call a special meeting of the stockholders whenever requested in writing to do so by the holders of at least twenty-five percent (25%) in amount of the stock, regardless of class, then outstanding and entitled to vote at such meeting.

Section 3. Notice of Meetings. Notice of the time, place and the purpose of each meeting of the stockholders, signed by the President or a Vice President or the Secretary or an Assistant Secretary shall be served either personally or by mail upon each stockholder of record entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the meeting; provided, that no notice of adjourned meetings need be given. If mailed, the notice shall be directed to each stockholder entitled to notice at his address as it appears on the stock books of the corporation unless he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Such further notice shall be given as may be required by law. Meetings may be held without notice if all stockholders entitled to vote thereat are present in person or by proxy or if notice of the time, place and purpose of such meeting is waived by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof, by all stockholders not present and entitled to vote at such meeting.

Section 4. Quorum. The holders of record of a majority of the shares of stock of the corporation issued and outstanding regardless of class and entitled to vote thereat, present in person or by proxy, shall, except as otherwise provided by law or by the Articles of Incorporation of the corporation as from time to time amended, constitute a quorum at all meetings of the stockholders; if there be no such quorum, the holders of a majority of such shares so present or represented may adjourn the meeting from time to time to a further date without further notice other than the announcement at such meeting, and when a quorum shall be present upon such later day, any business may be transacted which might have been transacted at the meeting as originally called.

MAS 00259

Section 5. Conduct of Meetings. Meetings of the stockholders shall be presided over by the President, or if he is not present by a Vice President, or if none of the Vice Presidents are present by a Chairman to be chosen at the meeting. The Secretary or an Assistant Secretary of the corporation, or in their absence, a person chosen at the meeting shall act as Secretary of the meeting.

Section 6. Inspectors of Election. Whenever any stockholder present at a meeting of the stockholders shall request the appointment of inspectors, the Chairman of the meeting shall appoint inspectors who need not be stockholders. If the right of any person to vote at such meeting shall be challenged, the inspectors of election shall determine such right. The inspectors shall receive and count the votes either upon an election or for the decision of any question, and shall determine the result. Their certification of any vote shall be prima facie evidence thereof.

ARTICLE II
Directors

Section 1. Number, Qualification, Term of Office and Quorum. The property, business and affairs of the corporation shall be managed by its Board of Directors to consist of between one (1) and five (5) members, such number to be established from time to time by resolution of the Stockholders or the Board of Directors, or as required by state law. All directors shall be of full age. The directors shall be elected at the annual meeting of the stockholders in each year and shall hold office until the next succeeding annual meeting of the stockholders and thereafter until their successors shall be elected and qualified in their stead. A majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors; provided, that if the directors shall severally and/or collectively consent in writing to any action to be taken by the corporation, such action shall be a valid corporate action as though it had been authorized at a meeting of the directors. If at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum shall have been obtained.

Section 2. Vacancies. Whenever any vacancies shall have occurred in the Board of Directors by reason of death, resignation, or otherwise, it shall be filled by the votes of a majority of the directors then in office at any meeting and the person so elected shall be a director until his successor is elected by the stockholders, who may make such election at the next annual meeting of the stockholders, or at any special meeting duly called for that purpose and held prior thereto.

Section 3. Meetings. The meetings of the Board of Directors shall be held at such place or places within or outside of the State of Delaware as may from time to time be determined by a majority of the Board. Regular meetings of the Board shall be held at such time and place as shall from time to time be determined by resolution of the Board of Directors. Special meetings may be held at any time upon the call of the President or Vice President or of not less than a majority of the directors then in office.

Section 4. Notice of Meetings. Written notice of the time and place, and in the case of special meetings, the purpose, of every meeting of the Board shall be duly served on or sent,

MAS 00260

mailed, telegraphed or faxed to each director not less than three (3) days before the meeting, except that a regular meeting of the Board may be held without notice immediately after the annual meeting of stockholders at the same place as such meeting was held, for the purpose of electing or appointing officers for the ensuing year and the transaction of other business, provided, that no notice of adjourned meetings need be given. Meetings may be held at any time without notice if all the directors are present or if those not present waive notice of the time, place and purpose of such meeting by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof.

Section 5. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more of their number to constitute an executive or any other committee, who, to the extent provided in said resolution, shall have and exercise the authority of the Board of Directors with regard to the management of the business of the corporation between the meetings of the Board; but subject to the limitations set forth in the Articles of Incorporation of the corporation, provided expressly however, that any executive committee so designated shall have the power and authority to declare dividends.

ARTICLE III
Officers

Section 1. Election or Appointment. The Board of Directors as soon as practicable after the annual election of the directors in each year shall elect a President of the corporation, a Secretary and a Treasurer; and may from time to time select a Chairman of the Board, Chief Executive Officer, one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers. The same person may hold more than one office. No officer shall execute, acknowledge or verify any instrument in more than one capacity. The Board of Directors may also appoint such other officers and agents as it may deem necessary for the transaction of business of the corporation.

Section 2. Term of Offices. The term of office of all officers shall be one year or until their respective successors are chosen but any officer may be removed from office at any meeting of the Board of Directors by the affirmative vote of a majority of the directors then in office, whenever in their judgment the business interests of the corporation will be served thereby. The Board of Directors shall have power to fill any vacancies in any offices occurring from whatever reason.

Section 3. Powers and Duties. The officers of the corporation shall respectively have such powers and perform such duties in the management of the property and affairs of the corporation, subject to the control of the directors, as generally pertain to their respective offices, as well as such additional powers and duties as may from time to time be conferred by the Board of Directors.

Section 4. General Powers as to Negotiable Paper. The Board of Directors may, from time to time, prescribe the manner of the making, signature or endorsement of bills of exchange, notes, drafts, checks, acceptances, obligations and other negotiable paper or other instruments for

MAS 00261

the payment of money and designate the officer or officers and or agent or agents who shall, from time to time, be authorized to make, sign or endorse the same on behalf of the corporation.

ARTICLE IV
Certificates of Stock

Section 1. Form and Transfer. The interest of each stockholder in the corporation shall be evidenced by certificates for shares of stock in such form as the Board of Directors may, from time to time, prescribe in accordance with the laws of the State of Delaware. Shares of stock of the corporation may be transferred on the books of the corporation in the manner prescribed by the laws of the State of Delaware by the holder thereof in person or by his duly authorized attorney upon surrender for cancellation of certificates for the same number of shares of the same class with an assignment and power of attorney duly endorsed thereon or attached thereto, duly executed and such proof of the authenticity of the signature as the corporation or its agents may reasonably require.

Section 2. Signature, Countersignature and Registration. The certificates of stock of the corporation shall be signed by or in the name of the corporation by the President or a Vice President, and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the corporation and countersigned and registered in such manner, if any, as the Board of Directors may by resolution prescribe; and to this end the Board of Directors may, from time to time, appoint such Transfer Agents and Registrars of stock of any class within or outside of the State of Delaware as may seem expedient to it; provided, that where such certificate is signed (1) by a Transfer Agent or an Assistant Transfer Agent, or (2) by a Transfer Clerk acting on behalf of such corporation and a Registrar, the signature of any such President, Vice President, Secretary, Assistant Secretary, Treasurer or Assistant Treasurer and/or the seal of the corporation may be a facsimile. In case any officer or officers, who shall have signed, or whose facsimile signature or signatures shall have been used on any certificate or certificates, shall cease to be such officer or officers, whether because of death, resignation, or otherwise, before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the corporation.

Section 3. Stock Ledger. It shall be the duty of the Secretary of the corporation to prepare and make or cause to be prepared and made, at least ten (10) days before every election of directors, a complete list of the stockholders entitled to vote at said election, arranged in alphabetical order. Such list shall be open at the place where said election is to be held or at the principal office of the corporation in the State of Delaware for at least ten (10) days before such election, for examination by any registered stockholder entitled to vote at such election and shall be produced and kept at the time and place of election during the whole time thereof, and shall be subject to the inspection of any registered stockholder or his proxy who may be present. The original or duplicate stock ledger or a list shall be the only evidence as to who are stockholders entitled to examine such list or the books of such corporation, or to vote in person or by proxy at such election.

MAS 00262

Section 4. Lost, Destroyed or Stolen Certificates. If the owner of a certificate of shares of the capital stock of the corporation claims that such certificate has been lost, destroyed or wrongfully taken, the corporation shall issue a new certificate for the same number of shares of the same class in lieu thereof, provided that the owner of such original certificate notifies the corporation in writing of such loss, destruction or wrongful taking before the corporation receives notice that such certificate has been acquired by a purchaser for value and without notice, files with the corporation a bond indemnifying the corporation, its officers and directors, and its transfer agents and registrars, if any, to the satisfaction of the Board of Directors, and satisfies any other reasonable requirements imposed by the Board of Directors.

Section 5. Record Dates. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other action, the Board may fix, in advance, a date as the record date of any such determination of stockholders. Such date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty days prior to any other action.

ARTICLE V
Fiscal Year; Seal

Section 1. Fiscal Year. The fiscal year of the corporation shall begin on the 1st day of January of each year and shall end on the 31st day of December following.

Section 2. Corporate Seal. The Board of Directors may provide a suitable corporate seal for use by the corporation. A seal shall not be required except as otherwise provided by law.

ARTICLE VI
Indemnification of Directors, Officers and Employees

The corporation shall, to the fullest extent permitted by the Delaware Corporation Law, indemnify any person whom it shall have power to indemnify under such Law from and against any and all of the expenses, liabilities or other matters referred to in or covered by such Law.

ARTICLE VII
Amendments

The Bylaws of the corporation may be amended, added to, or repealed, or other or new Bylaws may be adopted in lieu thereof, by the Board of Directors or the Stockholders of the corporation.

MAS 00263

As of 1/1/2006
now known as
Builder Services Group, Inc.

BYLAWS
OF
GALE INDUSTRIES, INC.

~~Now known as Masco Contractor Services Central, Inc.~~

ARTICLE I
Stockholders

Section 1. Annual Meeting. The annual meeting of the stockholders of the corporation shall be held at such place outside of the State of Florida as may from time to time be designated by the Board of Directors, on the 15th day of December in each year (or if said day be a legal holiday, then on the next succeeding business day), at 9:00 o'clock in the forenoon, for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

Section 2. Special Meetings. Special meetings of the stockholders may be held upon the call of the President or Secretary or of the Board of Directors at such place outside of the State of Florida as may be stated in the notice thereof, and at such time and for such purpose as may be stated in the notice. It shall be the duty of the President or the Secretary or of the Board of Directors to call a special meeting of the stockholders whenever requested in writing to do so by the holders of at least twenty-five percent (25%) in amount of the stock, regardless of class, then outstanding and entitled to vote at such meeting.

Section 3. Notice of Meetings. Notice of the time, place and the purpose of each meeting of the stockholders, signed by the President or a Vice President or the Secretary or an Assistant Secretary shall be served either personally or by mail upon each stockholder of record entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the meeting; provided, that no notice of adjourned meetings need be given. If mailed, the notice shall be directed to each stockholder entitled to notice at his address as it appears on the stock books of the corporation unless he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Such further notice shall be given as may be required by law. Meetings may be held without notice if all stockholders entitled to vote thereat are present in person or by proxy or if notice of the time, place and purpose of such meeting is waived by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof, by all stockholders not present and entitled to vote at such meeting.

Section 4. Quorum. The holders of record of a majority of the shares of stock of the corporation issued and outstanding regardless of class and entitled to vote thereat, present in person or by proxy, shall, except as otherwise provided by law or by the Articles of Incorporation of the corporation as from time to time amended, constitute a quorum at all meetings of the stockholders; if there be no such quorum, the holders of a majority of such shares so present or represented may adjourn the meeting from time to time to a further date without further notice other than the announcement at such meeting, and when a quorum shall be present upon such later day, any business may be transacted which might have been transacted at the meeting as originally called.

Section 5. Conduct of Meetings. Meetings of the stockholders shall be presided over by the President, or if he is not present by a Vice President, or if none of the Vice Presidents are present by a Chairman to be chosen at the meeting. The Secretary or an Assistant Secretary of the corporation, or in their absence, a person chosen at the meeting shall act as Secretary of the meeting.

Section 6. Inspectors of Election. Whenever any stockholder present at a meeting of the stockholders shall request the appointment of inspectors, the Chairman of the meeting shall appoint inspectors who need not be stockholders. If the right of any person to vote at such meeting shall be challenged, the inspectors of election shall determine such right. The inspectors shall receive and count the votes either upon an election or for the decision of any question, and shall determine the result. Their certification of any vote shall be prima facie evidence thereof.

ARTICLE II
Directors

Section 1. Number, Qualification, Term of Office and Quorum. The property, business and affairs of the corporation shall be managed by its Board of Directors to consist of three (3) members, or such other number as may be established from time to time by resolution of the Board of Directors. All directors shall be of full age. The directors shall be elected at the annual meeting of the stockholders in each year and shall hold office until the next succeeding annual meeting of the stockholders and thereafter until their successors shall be elected and qualified in their stead. A majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors; provided, that if the directors shall severally and/or collectively consent in writing to any action to be taken by the corporation, such action shall be a valid corporate action as though it had been authorized at a meeting of the directors. If at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum shall have been obtained.

Section 2. Vacancies. Whenever any vacancies shall have occurred in the Board of Directors by reason of death, resignation, or otherwise, it shall be filled by the votes of a majority of the directors then in office at any meeting and the person so elected shall be a director until his successor is elected by the stockholders, who may make such election at the next annual meeting of the stockholders, or at any special meeting duly called for that purpose and held prior thereto.

Section 3. Meetings. The meetings of the Board of Directors shall be held at such place or places outside of the State of Florida as may from time to time be determined by a majority of the Board. Regular meetings of the Board shall be held at such time and place as shall from time to time be determined by resolution of the Board of Directors. Special meetings may be held at any time upon the call of the President or Vice President or of not less than a majority of the directors then in office.

Section 4. Notice of Meetings. Written notice of the time and place, and in the case of special meetings, the purpose, of every meeting of the Board shall be duly served on or sent, mailed, telegraphed or faxed to each director not less than three (3) days before the meeting, except that a regular meeting of the Board may be held without notice immediately after the annual meeting of stockholders at the same place as such meeting was held, for the purpose of electing or appointing officers for the ensuing year and the transaction of other business, provided, that no notice of adjourned meetings need be given. Meetings may be held at any time without notice if all the directors are present or if those not present waive notice of the time, place and purpose of such meeting by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof.

Section 5. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more of their number to constitute an executive or any other committee, who, to the extent provided in said resolution, shall have and exercise the authority of the Board of Directors with regard to the management of the business of the corporation between the meetings of the Board; but subject to the limitations set forth in the Articles of Incorporation of the corporation, provided expressly however, that any executive committee so designated shall have the power and authority to declare dividends.

ARTICLE III
Officers

Section 1. Election or Appointment. The Board of Directors as soon as practicable after the annual election of the directors in each year shall elect a President of the corporation, a Secretary and a Treasurer; and may from time to time select a Chairman of the Board, Chief Executive Officer, one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers. The same person may hold any two offices. No officer shall execute, acknowledge or verify any instrument in more than one capacity. The Board of Directors may also appoint such other officers and agents as it may deem necessary for the transaction of business of the corporation.

Section 2. Term of Offices. The term of office of all officers shall be one year or until their respective successors are chosen but any officer may be removed from office at any meeting of the Board of Directors by the affirmative vote of a majority of the directors then in office, whenever in their judgment the business interests of the corporation will be served thereby. The Board of Directors shall have power to fill any vacancies in any offices occurring from whatever reason.

Section 3. Powers and Duties. The officers of the corporation shall respectively have such powers and perform such duties in the management of the property and affairs of the corporation, subject to the control of the directors, as generally pertain to their respective offices, as well as such additional powers and duties as may from time to time be conferred by the Board of Directors.

Section 4. General Powers as to Negotiable Paper. The Board of Directors may, from time to time, prescribe the manner of the making, signature or endorsement of bills of exchange, notes, drafts, checks, acceptances, obligations and other negotiable paper or other instruments for the payment of money and designate the officer or officers and or agent or agents who shall, from time to time, be authorized to make, sign or endorse the same on behalf of the corporation.

ARTICLE IV
Certificates of Stock

Section 1. Form and Transfer. The interest of each stockholder in the corporation shall be evidenced by certificates for shares of stock in such form as the Board of Directors may, from time to time, prescribe in accordance with the laws of the State of Florida. Shares of stock of the corporation may be transferred on the books of the corporation in the manner prescribed by the laws of the State of Florida by the holder thereof in person or by his duly authorized attorney upon surrender for cancellation of certificates for the same number of shares of the same class with an assignment and power of attorney duly endorsed thereon or attached thereto, duly executed and such proof of the authenticity of the signature as the corporation or its agents may reasonably require.

Section 2. Signature, Countersignature and Registration. The certificates of stock of the corporation shall be signed by or in the name of the corporation by the President or a Vice President, and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the corporation and countersigned and registered in such manner, if any, as the Board of Directors may by resolution prescribe; and to this end the Board of Directors may, from time to time, appoint such Transfer Agents and Registrars of stock of any class within or outside of the State of Florida as may seem expedient to it; provided, that where such certificate is signed (1) by a Transfer Agent or an Assistant Transfer Agent, or (2) by a Transfer Clerk acting on behalf of such corporation and a Registrar, the signature of any such President, Vice President, Secretary, Assistant Secretary, Treasurer or Assistant Treasurer and/or the seal of the corporation may be a facsimile. In case any officer or officers, who shall have signed, or whose facsimile signature or signatures shall have been used on any certificate or certificates, shall cease to be such officer or officers, whether because of death, resignation, or otherwise, before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the corporation.

Section 3. Stock Ledger. It shall be the duty of the Secretary of the corporation to prepare and make or cause to be prepared and made, at least ten (10) days before every election of directors, a complete list of the stockholders entitled to vote at said election, arranged in alphabetical order. Such list shall be open at the place where said election is to be held or at the principal office of the corporation in the State of Florida for at least ten (10) days before such election, for examination by any registered stockholder entitled to vote at such election and shall be produced and kept at the time and place of election during the whole time thereof, and shall be subject to the inspection of any

registered stockholder or his proxy who may be present. The original or duplicate stock ledger or a list shall be the only evidence as to who are stockholders entitled to examine such list or the books of such corporation, or to vote in person or by proxy at such election.

Section 4. Lost, Destroyed or Stolen Certificates. If the owner of a certificate of shares of the capital stock of the corporation claims that such certificate has been lost, destroyed or wrongfully taken, the corporation shall issue a new certificate for the same number of shares of the same class in lieu thereof, provided that the owner of such original certificate notifies the corporation in writing of such loss, destruction or wrongful taking before the corporation receives notice that such certificate has been acquired by a purchaser for value and without notice, files with the corporation a bond indemnifying the corporation, its officers and directors, and its transfer agents and registrars, if any, to the satisfaction of the Board of Directors, and satisfies any other reasonable requirements imposed by the Board of Directors.

Section 5. Record Dates. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other action, the Board may fix, in advance, a date as the record date of any such determination of stockholders. Such date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty days prior to any other action.

ARTICLE V
Fiscal Year; Seal

Section 1. Fiscal Year. The fiscal year of the corporation shall begin on the 1st day of January of each year and shall end on the 31st day of December following.

Section 2. Corporate Seal. The Board of Directors may provide a suitable corporate seal for use by the corporation.

ARTICLE VI
Indemnification of Directors, Officers and Employees

The corporation shall, to the fullest extent permitted by the Florida Business Corporation Act, indemnify any person whom it shall have power to indemnify under such Act from and against any and all of the expenses, liabilities or other matters referred to in or covered by such Law.

ARTICLE VII
Amendments

The Bylaws of the corporation may be amended, added to, or repealed, or other or new Bylaws may be adopted in lieu thereof, by the Board of Directors of the corporation.

Masco Corporation's Response to Complainants' Request No. 6

The extent to which the officers, directors and general manager of EnergySense, Inc. also occupy such positions with American National Services, Inc., Builder Services Group, Inc., Masco Contractor Services of California, Inc., and their respective subsidiaries whose work may be tested by EnergySense for Title 24 compliance purposes is set forth below:

	EnergySense, Inc.	American National Services, Inc.	Coast Insulation Contractors, Inc.	Sacramento Insulation	Builder Services Group, Inc.	Western Insulation, LP	Masco Contractor Services of CA, Inc.
David Bell	President						
Carolyn Christian	Assistant Secretary				Assistant Secretary	Assistant Secretary	Assistant Secretary
Lawrence Leaman	Vice President				Vice President	Vice President	Vice President
Jerry Mollien	Director; Vice President				Director; Vice President	Director; Vice President	Director; Vice President
Barry Silverman	Director; Vice President; Secretary				Director; Vice President; Secretary	Director; Vice President; Secretary	Director; Vice President; Secretary
John Sznewajs	Director; Vice President; Treasurer				Director; Vice President; Treasurer	Director; Vice President; Treasurer	Director; Vice President; Treasurer
Jaime Padron	General Manager						

As a matter of Masco corporate policy, Carolyn Christian, Lawrence Leaman, Jerry Mollien, Barry Silverman, and John Sznewajs occupy the same or similar positions in most of Masco Corporation's subsidiaries. However, they are not involved in the daily management or operations of the entities listed above.

BYLAWS
OF
SCHMID INSULATION CONTRACTORS, INC.
(as of June 10, 2003)

ARTICLE I
Stockholders

Section 1. Annual Meeting. The annual meeting of the stockholders of the corporation shall be held at such place within or outside of the State of California as may from time to time be designated by the Board of Directors, on the 15th day of December in each year (or if said day be a legal holiday, then on the next succeeding business day), at 9:00 in the forenoon, or at such other place, date and time for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

Section 2. Special Meetings. Special meetings of the stockholders may be held upon the call of the President or Secretary or the Board of Directors at such place outside of the State of California as may be stated in the notice thereof, and at such time and for such purpose as may be stated in the notice. It shall be the duty of the President or the Secretary or the Board of Directors to call a special meeting of the stockholders whenever requested in writing to do so by the holders of at least twenty-five percent (25%) in amount of the stock, regardless of class, then outstanding and entitled to vote at such meeting.

Section 3. Notice of Meetings. Notice of the time, place and the purpose of each meeting of the stockholders, signed by the President or a Vice President or the Secretary or an Assistant Secretary shall be served either personally or by mail upon each stockholder of record entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the meeting; provided, that no notice of adjourned meetings need be given. If mailed, the notice shall be directed to each stockholder entitled to notice at his address as it appears on the stock books of the corporation unless he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Such further notice shall be given as may be required by law. Meetings may be held without notice if all stockholders entitled to vote thereat are present in person or by proxy or if notice of the time, place and purpose of such meeting is waived by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof, by all stockholders not present and entitled to vote at such meeting.

Section 4. Quorum. The holders of record of a majority of the shares of stock of the corporation issued and outstanding regardless of class and entitled to vote thereat, present in person or by proxy, shall, except as otherwise provided by law or by the Articles of Incorporation of the corporation as from time to time amended, constitute a quorum at all meetings of the stockholders; if there be no such quorum, the holders of a majority of such shares so present or represented may adjourn the meeting from time to time to a further date without further notice other than the announcement at such meeting, and when a quorum shall be present upon such later day, any business may be transacted which might have been transacted at the meeting as originally called.

MAS 00264

Section 5. Conduct of Meetings. Meetings of the stockholders shall be presided over by the President, or if he is not present by a Vice President, or if none of the Vice Presidents are present by a Chairman to be chosen at the meeting. The Secretary or an Assistant Secretary of the corporation, or in their absence, a person chosen at the meeting shall act as Secretary of the meeting.

Section 6. Inspectors of Election. Whenever any stockholder present at a meeting of the stockholders shall request the appointment of inspectors, the Chairman of the meeting shall appoint inspectors who need not be stockholders. If the right of any person to vote at such meeting shall be challenged, the inspectors of election shall determine such right. The inspectors shall receive and count the votes either upon an election or for the decision of any question, and shall determine the result. Their certification of any vote shall be prima facie evidence thereof.

ARTICLE II
Directors

Section 1. Number, Qualification, Term of Office and Quorum. The property, business and affairs of the corporation shall be managed by its Board of Directors to consist of between one (1) and five (5) members, such number to be established from time to time by resolution of the Stockholders or the Board of Directors, or as required by state law. All directors shall be of full age. The directors shall be elected at the annual meeting of the stockholders in each year and shall hold office until the next succeeding annual meeting of the stockholders and thereafter until their successors shall be elected and qualified in their stead. A majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors; provided, that if the directors shall severally and/or collectively consent in writing to any action to be taken by the corporation, such action shall be a valid corporate action as though it had been authorized at a meeting of the directors. If at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum shall have been obtained.

Section 2. Vacancies. Whenever any vacancies shall have occurred in the Board of Directors by reason of death, resignation, or otherwise, it shall be filled by the votes of a majority of the directors then in office at any meeting and the person so elected shall be a director until his successor is elected by the stockholders, who may make such election at the next annual meeting of the stockholders, or at any special meeting duly called for that purpose and held prior thereto.

Section 3. Meetings. The meetings of the Board of Directors shall be held at such place or places within or outside of the State of California as may from time to time be determined by a majority of the Board. Regular meetings of the Board shall be held at such time and place as shall from time to time be determined by resolution of the Board of Directors. Special meetings may be held at any time upon the call of the President or Vice President or of not less than a majority of the directors then in office.

MAS 00265

Section 4. Notice of Meetings. Written notice of the time and place, and in the case of special meetings, the purpose, of every meeting of the Board shall be duly served on or sent, mailed, telegraphed or faxed to each director not less than three (3) days before the meeting, except that a regular meeting of the Board may be held without notice immediately after the annual meeting of stockholders at the same place as such meeting was held, for the purpose of electing or appointing officers for the ensuing year and the transaction of other business, provided, that no notice of adjourned meetings need be given. Meetings may be held at any time without notice if all the directors are present or if those not present waive notice of the time, place and purpose of such meeting by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof.

Section 5. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more of their number to constitute an executive or any other committee, who, to the extent provided in said resolution, shall have and exercise the authority of the Board of Directors with regard to the management of the business of the corporation between the meetings of the Board; but subject to the limitations set forth in the Articles of Incorporation of the corporation, provided expressly however, that any executive committee so designated shall have the power and authority to declare dividends.

ARTICLE III
Officers

Section 1. Election or Appointment. The Board of Directors as soon as practicable after the annual election of the directors in each year shall elect a President of the corporation, a Secretary and a Treasurer; and may from time to time select a Chairman of the Board, Chief Executive Officer, one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers. The same person may hold more than one office. No officer shall execute, acknowledge or verify any instrument in more than one capacity. The Board of Directors may also appoint such other officers and agents as it may deem necessary for the transaction of business of the corporation.

Section 2. Term of Offices. The term of office of all officers shall be one year or until their respective successors are chosen but any officer may be removed from office at any meeting of the Board of Directors by the affirmative vote of a majority of the directors then in office, whenever in their judgment the business interests of the corporation will be served thereby. The Board of Directors shall have power to fill any vacancies in any offices occurring from whatever reason.

Section 3. Powers and Duties. The officers of the corporation shall respectively have such powers and perform such duties in the management of the property and affairs of the corporation, subject to the control of the directors, as generally pertain to their respective offices, as well as such additional powers and duties as may from time to time be conferred by the Board of Directors.

Section 4. General Powers as to Negotiable Paper. The Board of Directors may, from time to time, prescribe the manner of the making, signature or endorsement of bills of exchange, notes, drafts, checks, acceptances, obligations and other negotiable paper or other instruments for the payment of money and designate the officer or officers and or agent or agents who shall, from time to time, be authorized to make, sign or endorse the same on behalf of the corporation.

ARTICLE IV
Certificates of Stock

Section 1. Form and Transfer. The interest of each stockholder in the corporation shall be evidenced by certificates for shares of stock in such form as the Board of Directors may, from time to time, prescribe in accordance with the laws of the State of California. Shares of stock of the corporation may be transferred on the books of the corporation in the manner prescribed by the laws of the State of California by the holder thereof in person or by his duly authorized attorney upon surrender for cancellation of certificates for the same number of shares of the same class with an assignment and power of attorney duly endorsed thereon or attached thereto, duly executed and such proof of the authenticity of the signature as the corporation or its agents may reasonably require.

Section 2. Signature, Countersignature and Registration. The certificates of stock of the corporation shall be signed by or in the name of the corporation by the President or a Vice President, and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the corporation and countersigned and registered in such manner, if any, as the Board of Directors may by resolution prescribe; and to this end the Board of Directors may, from time to time, appoint such Transfer Agents and Registrars of stock of any class within or outside of the State of California as may seem expedient to it; provided, that where such certificate is signed (1) by a Transfer Agent or an Assistant Transfer Agent, or (2) by a Transfer Clerk acting on behalf of such corporation and a Registrar, the signature of any such President, Vice President, Secretary, Assistant Secretary, Treasurer or Assistant Treasurer and/or the seal of the corporation may be a facsimile. In case any officer or officers, who shall have signed, or whose facsimile signature or signatures shall have been used on any certificate or certificates, shall cease to be such officer or officers, whether because of death, resignation, or otherwise, before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the corporation.

Section 3. Stock Ledger. It shall be the duty of the Secretary of the corporation to prepare and make or cause to be prepared and made, at least ten (10) days before every election of directors, a complete list of the stockholders entitled to vote at said election, arranged in alphabetical order. Such list shall be open at the place where said election is to be held or at the principal office of the corporation in the State of Washington for at least ten (10) days before such election, for examination by any registered stockholder entitled to vote at such election and shall be produced and kept at the time and place of election during the whole time thereof, and

shall be subject to the inspection of any registered stockholder or his proxy who may be present. The original or duplicate stock ledger or a list shall be the only evidence as to who are stockholders entitled to examine such list or the books of such corporation, or to vote in person or by proxy at such election.

Section 4. Lost, Destroyed or Stolen Certificates. If the owner of a certificate of shares of the capital stock of the corporation claims that such certificate has been lost, destroyed or wrongfully taken, the corporation shall issue a new certificate for the same number of shares of the same class in lieu thereof, provided that the owner of such original certificate notifies the corporation in writing of such loss, destruction or wrongful taking before the corporation receives notice that such certificate has been acquired by a purchaser for value and without notice, files with the corporation a bond indemnifying the corporation, its officers and directors, and its transfer agents and registrars, if any, to the satisfaction of the Board of Directors, and satisfies any other reasonable requirements imposed by the Board of Directors.

Section 5. Record Dates. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other action, the Board may fix, in advance, a date as the record date of any such determination of stockholders. Such date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty days prior to any other action.

ARTICLE V
Fiscal Year; Seal

Section 1. Fiscal Year. The fiscal year of the corporation shall begin on the 1st day of January of each year and shall end on the 31st day of December following.

Section 2. Corporate Seal. The Board of Directors may provide a suitable corporate seal for use by the corporation. A seal shall not be required except as otherwise provided by law.

ARTICLE VI
Indemnification of Directors, Officers and Employees

The corporation shall, to the fullest extent permitted by the Washington Corporation Law, indemnify any person whom it shall have power to indemnify under such Law from and against any and all of the expenses, liabilities or other matters referred to in or covered by such Law.

MAS 00268

ARTICLE VII
Amendments

The Bylaws of the corporation may be amended, added to, or repealed, or other or new Bylaws may be adopted in lieu thereof, by the Board of Directors or the Stockholders of the corporation.

MAS 00269

BYLAWS
OF
MASCO CONTRACTOR SERVICES WEST, INC.
(as of June 10, 2003)

ARTICLE I
Stockholders

Section 1. Annual Meeting. The annual meeting of the stockholders of the corporation shall be held at such place within or outside of the State of California as may from time to time be designated by the Board of Directors, on the 15th day of December in each year (or if said day be a legal holiday, then on the next succeeding business day), at 9:00 in the forenoon, or at such other place, date and time for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

Section 2. Special Meetings. Special meetings of the stockholders may be held upon the call of the President or Secretary or the Board of Directors at such place outside of the State of California as may be stated in the notice thereof, and at such time and for such purpose as may be stated in the notice. It shall be the duty of the President or the Secretary or the Board of Directors to call a special meeting of the stockholders whenever requested in writing to do so by the holders of at least twenty-five percent (25%) in amount of the stock, regardless of class, then outstanding and entitled to vote at such meeting.

Section 3. Notice of Meetings. Notice of the time, place and the purpose of each meeting of the stockholders, signed by the President or a Vice President or the Secretary or an Assistant Secretary shall be served either personally or by mail upon each stockholder of record entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the meeting; provided, that no notice of adjourned meetings need be given. If mailed, the notice shall be directed to each stockholder entitled to notice at his address as it appears on the stock books of the corporation unless he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Such further notice shall be given as may be required by law. Meetings may be held without notice if all stockholders entitled to vote thereat are present in person or by proxy or if notice of the time, place and purpose of such meeting is waived by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof, by all stockholders not present and entitled to vote at such meeting.

Section 4. Quorum. The holders of record of a majority of the shares of stock of the corporation issued and outstanding regardless of class and entitled to vote thereat, present in person or by proxy, shall, except as otherwise provided by law or by the Articles of Incorporation of the corporation as from time to time amended, constitute a quorum at all meetings of the stockholders; if there be no such quorum, the holders of a majority of such shares so present or represented may adjourn the meeting from time to time to a further date without further notice other than the announcement at such meeting, and when a quorum shall be present upon such later day, any business may be transacted which might have been transacted at the meeting as originally called.

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Section 5. Conduct of Meetings. Meetings of the stockholders shall be presided over by the President, or if he is not present by a Vice President, or if none of the Vice Presidents are present by a Chairman to be chosen at the meeting. The Secretary or an Assistant Secretary of the corporation, or in their absence, a person chosen at the meeting shall act as Secretary of the meeting.

Section 6. Inspectors of Election. Whenever any stockholder present at a meeting of the stockholders shall request the appointment of inspectors, the Chairman of the meeting shall appoint inspectors who need not be stockholders. If the right of any person to vote at such meeting shall be challenged, the inspectors of election shall determine such right. The inspectors shall receive and count the votes either upon an election or for the decision of any question, and shall determine the result. Their certification of any vote shall be prima facie evidence thereof.

ARTICLE II
Directors

Section 1. Number, Qualification, Term of Office and Quorum. The property, business and affairs of the corporation shall be managed by its Board of Directors to consist of between one (1) and five (5) members, such number to be established from time to time by resolution of the Stockholders or the Board of Directors, or as required by state law. All directors shall be of full age. The directors shall be elected at the annual meeting of the stockholders in each year and shall hold office until the next succeeding annual meeting of the stockholders and thereafter until their successors shall be elected and qualified in their stead. A majority of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors; provided, that if the directors shall severally and/or collectively consent in writing to any action to be taken by the corporation, such action shall be a valid corporate action as though it had been authorized at a meeting of the directors. If at any meeting of the Board there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum shall have been obtained.

Section 2. Vacancies. Whenever any vacancies shall have occurred in the Board of Directors by reason of death, resignation, or otherwise, it shall be filled by the votes of a majority of the directors then in office at any meeting and the person so elected shall be a director until his successor is elected by the stockholders, who may make such election at the next annual meeting of the stockholders, or at any special meeting duly called for that purpose and held prior thereto.

Section 3. Meetings. The meetings of the Board of Directors shall be held at such place or places within or outside of the State of California as may from time to time be determined by a majority of the Board. Regular meetings of the Board shall be held at such time and place as shall from time to time be determined by resolution of the Board of Directors. Special meetings may be held at any time upon the call of the President or Vice President or of not less than a majority of the directors then in office.

IMP

Section 4. Notice of Meetings. Written notice of the time and place, and in the case of special meetings, the purpose, of every meeting of the Board shall be duly served on or sent, mailed, telegraphed or faxed to each director not less than three (3) days before the meeting, except that a regular meeting of the Board may be held without notice immediately after the annual meeting of stockholders at the same place as such meeting was held, for the purpose of electing or appointing officers for the ensuing year and the transaction of other business, provided, that no notice of adjourned meetings need be given. Meetings may be held at any time without notice if all the directors are present or if those not present waive notice of the time, place and purpose of such meeting by telegram, facsimile, radiogram, cablegram or other writing, either before or after the holding thereof.

Section 5. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more of their number to constitute an executive or any other committee, who, to the extent provided in said resolution, shall have and exercise the authority of the Board of Directors with regard to the management of the business of the corporation between the meetings of the Board; but subject to the limitations set forth in the Articles of Incorporation of the corporation, provided expressly however, that any executive committee so designated shall have the power and authority to declare dividends.

ARTICLE III
Officers

Section 1. Election or Appointment. The Board of Directors as soon as practicable after the annual election of the directors in each year shall elect a President of the corporation, a Secretary and a Treasurer; and may from time to time select a Chairman of the Board, Chief Executive Officer, one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers. The same person may hold more than one office. No officer shall execute, acknowledge or verify any instrument in more than one capacity. The Board of Directors may also appoint such other officers and agents as it may deem necessary for the transaction of business of the corporation.

Section 2. Term of Offices. The term of office of all officers shall be one year or until their respective successors are chosen but any officer may be removed from office at any meeting of the Board of Directors by the affirmative vote of a majority of the directors then in office, whenever in their judgment the business interests of the corporation will be served thereby. The Board of Directors shall have power to fill any vacancies in any offices occurring from whatever reason.

Section 3. Powers and Duties. The officers of the corporation shall respectively have such powers and perform such duties in the management of the property and affairs of the corporation, subject to the control of the directors, as generally pertain to their respective offices, as well as such additional powers and duties as may from time to time be conferred by the Board of Directors.

MJP

Section 4. General Powers as to Negotiable Paper. The Board of Directors may, from time to time, prescribe the manner of the making, signature or endorsement of bills of exchange, notes, drafts, checks, acceptances, obligations and other negotiable paper or other instruments for the payment of money and designate the officer or officers and or agent or agents who shall, from time to time, be authorized to make, sign or endorse the same on behalf of the corporation.

ARTICLE IV
Certificates of Stock

Section 1. Form and Transfer. The interest of each stockholder in the corporation shall be evidenced by certificates for shares of stock in such form as the Board of Directors may, from time to time, prescribe in accordance with the laws of the State of California. Shares of stock of the corporation may be transferred on the books of the corporation in the manner prescribed by the laws of the State of California by the holder thereof in person or by his duly authorized attorney upon surrender for cancellation of certificates for the same number of shares of the same class with an assignment and power of attorney duly endorsed thereon or attached thereto, duly executed and such proof of the authenticity of the signature as the corporation or its agents may reasonably require.

Section 2. Signature, Countersignature and Registration. The certificates of stock of the corporation shall be signed by or in the name of the corporation by the President or a Vice President, and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and may be sealed with the seal of the corporation and countersigned and registered in such manner, if any, as the Board of Directors may by resolution prescribe; and to this end the Board of Directors may, from time to time, appoint such Transfer Agents and Registrars of stock of any class within or outside of the State of California as may seem expedient to it; provided, that where such certificate is signed (1) by a Transfer Agent or an Assistant Transfer Agent, or (2) by a Transfer Clerk acting on behalf of such corporation and a Registrar, the signature of any such President, Vice President, Secretary, Assistant Secretary, Treasurer or Assistant Treasurer and/or the seal of the corporation may be a facsimile. In case any officer or officers, who shall have signed, or whose facsimile signature or signatures shall have been used on any certificate or certificates, shall cease to be such officer or officers, whether because of death, resignation, or otherwise, before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates may nevertheless be adopted by the corporation and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the corporation.

Section 3. Stock Ledger. It shall be the duty of the Secretary of the corporation to prepare and make or cause to be prepared and made, at least ten (10) days before every election of directors, a complete list of the stockholders entitled to vote at said election, arranged in alphabetical order. Such list shall be open at the place where said election is to be held or at the principal office of the corporation in the State of Washington for at least ten (10) days before such election, for examination by any registered stockholder entitled to vote at such election and shall be produced and kept at the time and place of election during the whole time thereof, and

shall be subject to the inspection of any registered stockholder or his proxy who may be present. The original or duplicate stock ledger or a list shall be the only evidence as to who are stockholders entitled to examine such list or the books of such corporation, or to vote in person or by proxy at such election.

Section 4. Lost, Destroyed or Stolen Certificates. If the owner of a certificate of shares of the capital stock of the corporation claims that such certificate has been lost, destroyed or wrongfully taken, the corporation shall issue a new certificate for the same number of shares of the same class in lieu thereof, provided that the owner of such original certificate notifies the corporation in writing of such loss, destruction or wrongful taking before the corporation receives notice that such certificate has been acquired by a purchaser for value and without notice, files with the corporation a bond indemnifying the corporation, its officers and directors, and its transfer agents and registrars, if any, to the satisfaction of the Board of Directors, and satisfies any other reasonable requirements imposed by the Board of Directors.

Section 5. Record Dates. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other action, the Board may fix, in advance, a date as the record date of any such determination of stockholders. Such date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty days prior to any other action.

ARTICLE V
Fiscal Year; Seal

Section 1. Fiscal Year. The fiscal year of the corporation shall begin on the 1st day of January of each year and shall end on the 31st day of December following.

Section 2. Corporate Seal. The Board of Directors may provide a suitable corporate seal for use by the corporation. A seal shall not be required except as otherwise provided by law.

ARTICLE VI
Indemnification of Directors, Officers and Employees

The corporation shall, to the fullest extent permitted by the Washington Corporation Law, indemnify any person whom it shall have power to indemnify under such Law from and against any and all of the expenses, liabilities or other matters referred to in or covered by such Law.

MYP

ARTICLE VII
Amendments

The Bylaws of the corporation may be amended, added to, or repealed, or other or new Bylaws may be adopted in lieu thereof, by the Board of Directors or the Stockholders of the corporation.

MP

Tab 19

HERS TESTING

CONTRACT CHECK LIST

January 23, 2009

Contractor:	[redacted]
Address:	[redacted]
	[redacted]
Phone:	[redacted]
Estimator:	Steve Markley

BRANCH:	SAN JOSE
Job Name:	[redacted]
City:	[redacted]
Lots:	[redacted]
Margin Amount	[redacted]
Margin %:	[redacted]

BILLING RECAP RESIDENTIAL

Lot #:	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Type of Test	Duct Testing, QII Inspection, Thermal Bypass					
Price per Unit: 100%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
# Units:	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Base Total:	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total Contract:	[redacted]		*Total # Units:*	[redacted]		

Prevailing Wage Job	YES	NO	*Certified Payroll*	YES	NO
	[redacted]	[redacted]		[redacted]	[redacted]

PRELIEN INFORMATION

Owner:
[redacted]

Lender:
[redacted]

REDACTED

Tab 20

- SAN JOSE
- SANTA ROSA
- SALINAS
- CONCORD

COAST BUILDING PRODUCTS

A MASCO Company

1920 Mark Court, Suite 100, Concord, CA 94520
Ph. (925) 671-8111 Fax (925) 671-8121

TO: [redacted]
STREET: [redacted]
CITY: [redacted]
ATTN: [redacted]
PHONE: [redacted]

JOB NAME & LOCATION: [redacted]

We Propose to supply all equipment, labor and material to:
Base Bid:

WORK PERFORM	Lot	PRICE per Lot	#Lots	Total price
ENERGY STAR QUALIFICATION • DUCT TESTING • QUALITY INSULATION INSPECTION- (QII) • THERMAL BY PASS	[redacted]	[redacted]	[redacted]	[redacted]
			TOTAL PRICE =	[redacted]

- *Bid price includes testing and paperwork fees as well as entry into the state registry for HERS Testing.*

COAST BUILDING PRODUCTS
By: SM
Estimator: STEVE MARKLEY
Date: January 22, 2009

ACCEPTED
By: _____
Title: _____
Date: _____

TERMS OF PAYMENT: Payment in full due as stated on invoice regardless of any payment arrangements you have with third parties.
ACCEPTANCE: Contractor may change and/or withdraw this agreement if Contractor does not receive you signed acceptance within 10 business days after the date listed below.
PRICING: Any additional work performed is subject to Contractor's then current pricing (unless Contractor otherwise agrees in writing) and to these terms and conditions. The prices above shall remain firm for 90 days after the date You sign this agreement. If performance of this agreement extends beyond those 90 days, You agree to pay Contractor's then current pricing for the work performed after those 90 days.

THE INFORMATION CONTAINED IN THIS AGREEMENT IS CONFIDENTIAL. NEITHER THIS AGREEMENT NOR ITS TERMS MAY BE DISCLOSED TO THIRD PARTIES.

[redacted]

California State Contractors License No. 465440

REDACTED

Tab 21

PURCHASE ORDER

[redacted]

SUPPLIER:

Coast Building Products-COAST
1920 Mark Court, Suite 100
Concord CA 94520

Telephone (925) 671-8111 Fax (925) 671-8117

Page	1	
Purchase Order Date		9/11/07
Contract Number	50530	3204190 OF
Job Number		5053

PURCHASER:

[redacted]

Send Invoice To:

[redacted]

Job Description	Authorized Signature	Date Signed	Delivery Date	Install Date
[redacted]				

Contract Description	Subcontract Amount
[redacted]	[redacted]

Description	Option	Qty	Total Value	Balance
Original				
50539000 28245	1520 Title 24 Consultants	168.00	[redacted]	
Perform verification and testing based on T-24 as per HERS.				
Verification on 168 lots				
	Total - Original	168.00		

CERTIFICATE OF THE SUBCONTRACTOR:

I hereby certify that the work performed and the materials supplied to date, as shown on the above represent the actual value of accomplishment under the terms of the contract (and all authorized changes thereto) between the undersigned and [redacted] relating to the above referenced project. I also certify that payments, less applicable retention, have been made through the period covered by previous payments received from the contractor, to (1) all my subcontractors (sub-contractors) and (2) for all materials and labor used in or in connection with the performance of this contract. I further certify I have complied with Federal, State and local tax laws, including Social Security laws and Unemployment Compensation laws and Workmen's Compensation laws insofar as applicable to the performance of this contract.

Do not proceed with the above work until authorized by the Project Superintendant. Before invoicing against this Notice to Proceed, the Superintendant must sign below.

Coast Building Products-COAST INSULATIO
SUBCONTRACTOR

By:_____
(Project Superintendent)

Date:_____

By:_____
(Authorized Signature)

Title:_____
(Corporate Title)

PURCHORD USA

REDACTED MAS 00027

Tab 22

12717

MASCO Contractor Services
500 Sequoia Pacific Blvd.
Sacramento, CA 95814
Tel (916) 440-8761
Fax (916) 446-4634
Lic. #21121126

Sacramento Building Products

[redacted] [redacted]

We propose to provide Title 24 duct testing (HERS rating) and completion of CHEERS registry for each home with the CF4R form.

Also included in this test are for 2 systems

- Duct testing "verify ducts are tight"
- High quality insulation inspection
- Blower door test
- TXV valve verification
- EER verification

[redacted]

Fresno
Tulare
Modesto
Sacramento
Marysville
Redding

[redacted]

BH

Insulation Fireplace Mantels Firestopping Fireproofing Paint Windows Gutters

[redacted]

[redacted]

REDACTED MAS 00030

- SAN JOSE
- SANTA ROSA
- SALINAS
- CONCORD

EnergySense
Division
MASCO Contractor Services
1920 Mark Court, Suite 100, Concord, CA 94520
Ph. (925) 671-8111 Fax (925) 671-8121

TO:	[redacted]	JOB NAME & LOCATION:	[redacted]
STREET:	[redacted]		
CITY:	[redacted]		
ATTN:	[redacted]		
PHONE:	[redacted]		

14elle

We Propose to supply all equipment, labor and material to:
Base Bid:

- Perform Verification and Testing based on T-24 as per HERS verification.
- Testing is based on the current 2005 T-24 calculations.
  (Note: *If the T-24 is updated an update to the bid may be required to include any additional measures.)*
- Bid price includes testing and paperwork fees as well as entry into the state registry for HERS Testing.
- The Following are the items in the bid for testing and inspections.

Item	TESTING	Total Price
	Duct Testing	
1	Yes	[redacted]

- *Duct testing price is for single system per unit only any additional system will be charge of [redacted] per unit*

COAST BUILDING PRODUCTS		ACCEPTED	
By:	SM	By:	
Estimator:	STEVE MARKLEY	Title:	
Date:	September 11, 2008	Date:	

TERMS OF PAYMENT: Payment in full due as stated on invoice regardless of any payment arrangements you have with third parties.
ACCEPTANCE: Contractor may change and/or withdraw this agreement if Contractor does not receive you signed acceptance within 10 business days after the date listed below.
PRICING: Any additional work performed is subject to Contractor's then current pricing (unless Contractor otherwise agrees in writing) and to these terms and conditions. The prices above shall remain firm for 90 days after the date You sign this agreement. If performance of this agreement extends beyond those 90 days, You agree to pay Contractor's then current pricing for the work performed after those 90 days.

THE INFORMATION CONTAINED IN THIS AGREEMENT IS CONFIDENTIAL. NEITHER THIS AGREEMENT NOR ITS TERMS MAY BE DISCLOSED TO THIRD PARTIES.

SEP 29 2008

[redacted]

California State Contractors License No. 465440

ENTERED

Tab 23

• SAN JOSE
• SANTA ROSA
• SALINAS
• CONCORD

COAST BUILDING PRODUCTS

DIVISION OF MASCO CONTRACTOR SERVICES
SAN JOSE BRANCH

1341 Oakland Road, San Jose, CA 95112 License #465440 Ph. (408) 882-0411 Fax (408) 298-7257

TO: [redacted]
STREET: [redacted]
CITY: [redacted]
ATTN: [redacted]
PHONE: [redacted]

JOB NAME & LOCATION: [redacted] 7/9/07

BASE BID:

We propose to supply all equipment, labor and material to install:

- Perform Verification and Testing based on T-24 as per HERS verification.
- Testing is based on the current 2005 T-24 calculations.
  (NOTE: *If the T-24 is updated an update to the bid may be required to include any additional measures.*)
- Bid price includes testing and paperwork fees as well as entry into the state registry for HERS testing.
- The following are the items in the bid for testing and inspections.
- Duct Testing is based upon 1 system per dwelling unit.

	TESTING			
PLAN	Duct Testing	TXV Valve	Quality Insulation	Per Plan
All Plans	Yes* (2 Systems)	Yes	Yes	[redacted]

- Additional HVAC systems per dwelling unit will be charged at [redacted] per system for testing and inspections.

BASE BID TOTAL: [redacted]

Net 10 Days

PRICES GOOD FOR THIRTY DAYS

FOR SCHEDULING PLEASE CALL (408) 275-7125

Draft stop, fire block, fire stop (UBC 708.2.1 et seq., formerly 2516(f), or locally adopted equivalent), fire rated caulking are not included within Contractor's scope of work unless specifically listed above.

COAST BUILDING PRODUCTS
By: [signature]
Estimator: [redacted]
Date: July 9, 2007

ACCEPTED: [redacted]
By:
Title:
Date:

TERMS OF PAYMENT: PAYMENT IN FULL DUE AS STATED ON INVOICE REGARDLESS OF ANY PAYMENT ARRANGEMENTS [redacted] WITH THIRD PARTIES. AMOUNT DUE IS C.O.D. UNLESS APPROVED CUSTOMER INFORMATION IS ON FILE.
ACCEPTANCE: CONTRACTOR MAY CHANGE AND/OR WITHDRAW THIS AGREEMENT IF CONTRACTOR DOES NOT RECEIVE YOUR SIGNED ACCEPTANCE WITHIN 10 DAYS AFTER THE DATE LISTED ABOVE.
PRICING: ANY ADDITIONAL WORK PERFORMED IS SUBJECT TO CONTRACTOR'S THEN CURRENT PRICING (UNLESS CONTRACTOR OTHERWISE AGREES IN WRITING) AND TO THESE TERMS AND CONDITIONS. THE PRICES ABOVE SHALL REMAIN FIRM FOR 90 DAYS AFTER THE DATE YOU SIGN THIS AGREEMENT. IF PERFORMANCE OF THIS AGREEMENT EXTENDS BEYOND THOSE 90 DAYS, YOU AGREE TO PAY CONTRACTOR'S THEN CURRENT PRICING FOR THE WORK PERFORMED AFTER 90 DAYS.

THE INFORMATION CONTAINED IN THIS AGREEMENT IS CONFIDENTIAL. NEITHER THIS AGREEMENT NOR ITS TERMS MAY BE DISCLOSED TO THIRD PARTIES.

READ THE SECOND (2) PAGE OF THIS AGREEMENT. IT CONTAINS IMPORTANT PROVISIONS, AND IS PART OF THIS AGREEMENT.

Tab 24

STATE OF CALIFORNIA

ENERGY RESOURCES CONSERVATION

AND DEVELOPMENT COMMISSION

CALIFORNIA LIVING & ENERGY (a division of William Lilly & Associates, Inc.) and DUCT TESTERS, INC., Complainants, vs. MASCO CORPORATION and ENERGYSENSE, INC., Respondents.	Docket Number 08-CRI-01 **RESPONDENTS MASCO CORPORATION'S AND ENERGYSENSE, INC.'S RESPONSES TO COMPLAINANTS' SUPPLEMENTAL INTERROGATORIES AND REQUEST FOR PRODUCTION OF DOCUMENTS**

SONNENSCHEIN NATH & ROSENTHAL LLP
525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

Respondents Masco Corporation and EnergySense, Inc. (hereinafter referred to as "Masco" or "EnergySense," respectively, or "Respondents") hereby respond to the Complainants' Supplemental Interrogatories and Request for Production of Documents ("Supplemental Requests"), dated February 25, 2009.

GENERAL OBJECTIONS AND RESERVATIONS

Respondents reserve their right to rely on any information or other evidence which may develop or come to their attention at a later time. Respondents' objections as set forth herein are made without prejudice to Respondents' right to assert further objections or responses should Respondents discover additional grounds for such objections or responses. Respondents make the following general objections to each Supplemental Request. The assertion of the same, similar, or additional objections, or the provision of any responses to any of these Supplemental Requests, shall not waive any of these objections as set forth below:

A. Respondents object to each Supplemental Request on the grounds that they are untimely. Respondents have previously responded to numerous requests for information and documents from Complainants following the November 2008 initial pre-hearing conference. Served on February 27, 2009, less than three weeks before the hearing in this proceeding is set to commence, the Supplemental Requests are completely new requests that Complainants had the opportunity to propound immediately following the initial pre-hearing conference. However, Complainants never did so. By being compelled to respond to the untimely Supplemental Requests on an expedited basis, Respondents' hearing preparation is being unduly and unfairly prejudiced.

B. Respondents object to each Supplemental Request to the extent it seeks information protected from disclosure by any applicable privilege, including, without limitation, the attorney-client privilege, the work product privilege, the mediation privilege, or any other privilege or doctrine protecting information and/or documents from disclosure.

C. Respondents object to each Supplemental Request to the extent it seeks information that is private and/or confidential and constitutes proprietary, business, trade secret, financial or commercially sensitive information of Respondents and/or third parties.

D. Respondents object to each Supplemental Request to the extent it seeks information that is neither relevant nor reasonably calculated to lead to the discovery of relevant and admissible evidence.

E. Respondents object to each Supplemental Request to the extent it purports to seek documents that are not in Respondents' possession, custody or control or are equally or more readily available to Complainants.

F. Respondents object to each Supplemental Request to the extent that it is vague, unclear, ambiguous and/or capable of multiple interpretations.

G. Respondents object to each Supplemental Request to the extent that it is overly broad and/or responding thereto would be unduly burdensome.

SONNENSCHEIN NATH & ROSENTHAL LLP
525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

RESPONSES TO REQUESTS FOR PRODUCTION OF DOCUMENTS FROM MASCO CORPORATION

REQUEST NO. 1:

All documents identifying the terms and conditions of MASCO's acquisition of Energy Sense, Inc. as a subsidiary of MASCO.

RESPONSE TO REQUEST NO. 1:

Masco objects to this request on the grounds that it is vague, overly broad and not relevant or reasonably calculated to lead to the discovery of relevant and admissible evidence. The relationship between Masco and EnergySense is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding those objections and without waiver thereof, Masco states that EnergySense, Inc. was not acquired by Masco. Instead, Masco caused EnergySense, Inc. to be incorporated as a Delaware corporation on August 11, 2006. A true and correct copy of EnergySense's Delaware certificate of incorporation is provided at Tab 1. EnergySense, Inc.'s by-laws have been previously produced.

REQUEST NO. 2:

Any and all documents concerning the inclusion of the Financial Performance of Energy Sense, Inc. into the financial statements of MASCO for the fiscal years ending December 31, 2002 through and including December 31, 2008, including, but not limited to those contained in MASCO's Annual Reports and Form 10-Ks. In this and all following document demands and Special Interrogatories, the term "Financial Performance" shall include, but not be limited to: 1) Net Sales; 2) Operating Profit; 3) Income Before Taxes; 4) Net income; 5) Depreciation & Amortization; 6) Working Capital); 7) Assets; 8) Liabilities, and 9) Shareholder's Equity.

RESPONSE TO REQUEST NO. 2:

Masco objects to this request on the grounds that it is vague, compound, overly broad, unduly burdensome and not reasonably calculated to lead to the discovery of relevant and admissible evidence. The inclusion of the financial performance of EnergySense in Masco's

SONNENSCHEIN NATH & ROSENTHAL LLP
525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

financial statements is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding those objections and without waiver thereof, Masco states that as a wholly-owned subsidiary of Masco, EnergySense's financial performance has been included in Masco's consolidated financial statements since EnergySense commenced operations. Those consolidated financial statements are included in Masco's publicly available Annual Reports and Form 10-Ks on file with the Securities and Exchange Commission.

REQUEST NO. 3:

Any and all documents concerning the inclusion of the Financial Performance of Masco Building Products into the financial statements of MASCO for the fiscal years ending December 31, 2002 through and including December 31, 2008, including, but not limited to, those contained in MASCO's Annual Reports and Form 10-Ks.

RESPONSE TO REQUEST NO. 3:

Masco objects to this request on the grounds that it is vague, overly broad, unduly burdensome and not reasonably calculated to lead to the discovery of relevant and admissible evidence. The financial performance of Masco Building Products is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding those objections and without waiver thereof, Masco states that Masco Building Products Corp. is a Masco subsidiary that previously had an ownership interest in a company that manufactured door locks. However, that door lock business has been sold and Masco Building Products Corp. has no connection to the business or operations of EnergySense, Inc.

REQUEST NO. 4:

Any and all documents concerning any loans, cash advances or any other manner of financing provided by MASCO or any other MASCO-related entity to Energy Sense, Inc.

RESPONSE TO REQUEST NO. 4:

Masco objects to this request on the grounds that it is vague, overly broad, unduly burdensome and not reasonably calculated to lead to the discovery of relevant and admissible

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525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

evidence. Whether Masco or any other Masco-related entity has provided loans, cash advances or any other manner of financing to EnergySense is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding those objections and without waiver thereof, Masco states that EnergySense has received no loans, cash advances or any other financing from any Masco installation subsidiary whose work has been field tested or verified under Title 24 by a HERS rater employed by EnergySense.

RESPONSE TO REQUEST FOR PRODUCTION OF DOCUMENTS FROM ENERGYSENSE, INC.

REQUEST NO. 1:

All year-end financial statements generated by Energy Sense, Inc. subsequent to their acquisition by MASCO, including, but not limited to, those contained in MASCO's Annual Reports and Form 10-Ks. Any and all documents concerning the inclusion of the Financial Performance of Energy Sense, Inc. into the financial statements of Masco Contractor Services for the fiscal years ending December 31, including, but not limited to, those contained in MASCO's Annual Reports and Form 10-Ks.

RESPONSE TO REQUEST NO. 1:

EnergySense objects to this request on the grounds that it is vague, compound, overly broad, unduly burdensome and not reasonably calculated to lead to the discovery of relevant and admissible evidence. EnergySense further objects to this request on the grounds that it seeks confidential and proprietary business and financial information, the disclosure of which would cause significant competitive harm to EnergySense. The financial performance of Masco, EnergySense and Masco Contractor Services (which is not a legal entity) is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations.

SONNENSCHEIN NATH & [illegible]THAL LLP
525 MARKET STREET, [illegible]FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

RESPONSES TO SUPPLEMENTAL SPECIAL INTERROGATORIES FROM MASCO CORPORATION

INTERROGATORY NO. 1:

Did you acquire Energy Sense, Inc as a subsidiary?

RESPONSE TO INTERROGATORY NO. 1:

No.

INTERROGATORY NO. 2:

If the answer to the preceding Interrogatory is "No", please identify the nature of any relationship, financial or otherwise, between MASCO and Energy Sense, Inc.

RESPONSE TO INTERROGATORY NO. 2:

Masco formed EnergySense, Inc. as its wholly-owned subsidiary when Masco caused EnergySense, Inc. to be incorporated in Delaware on August 11, 2006.

INTERROGATORY NO. 3:

Was the Financial Performance of Energy Sense, Inc. included in the financial figures contained in MASCO's Annual Reports and/or Form 10-Ks for any of the fiscal years ending December 31, 2002 through and including December 31, 2008?

RESPONSE TO INTERROGATORY NO. 3:

Masco objects to this request on the grounds that it is not reasonably calculated to lead to the discovery of relevant and admissible evidence. The financial performance of Masco and EnergySense is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding that objection and without waiver thereof, Masco states that EnergySense's Financial Performance has been included in the consolidated financial statements included in Masco's Annual Reports and Form 10-Ks since EnergySense began operations.

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525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

INTERROGATORY NO. 4:

If the answer to the proceeding Interrogatory is "Yes", please identify the fiscal years in which Energy Sense Inc.'s Financial Performance was included in the financial figures contained in MASCO's Annual Report and Form 10-Ks.

RESPONSE TO INTERROGATORY NO. 4:

Masco objects to this request on the grounds that it is not reasonably calculated to lead to the discovery of relevant and admissible evidence. The financial performance of Masco and EnergySense is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding that objection and without waiver thereof, Masco states that EnergySense's Financial Performance has been included in Masco's consolidated financial statements included in Masco's Annual Reports and Form 10-Ks for fiscal years 2007 and 2008.

INTERROGATORY NO. 5:

Was the Financial Performance of Masco Contractor Services included in the financial figures contained in MASCO's Annual Reports and Form 10-Ks for any of the fiscal years ending December 31, 2002 through and including December 31, 2008?

RESPONSE TO INTERROGATORY NO. 5:

Masco objects to this request on the grounds that it is not reasonably calculated to lead to the discovery of relevant and admissible evidence. The financial performance of Masco and Masco Contractor Services is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding that objection and without waiver thereof, Masco states that Masco Contractor Services is not a legal entity. However, the financial performance of the Masco installation subsidiaries operating in California—including Western Insulation, LP, Coast Insulation Contractors, Inc., Sacramento Insulation Contractors and Masco Contractor Services of California, Inc.—have been included in Masco's consolidated annual financial statements included in Masco's Annual Reports and Form 10-Ks since those companies began operations or were acquired by Masco.

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INTERROGATORY NO. 6:

Does MASCO or any other MASCO-related entity sell or install Milgard windows in California?

RESPONSE TO INTERROGATORY NO. 6:

Yes.

INTERROGATORY NO. 7:

Does MASCO or any other MASCO-related entity install insulation in California?

RESPONSE TO INTERROGATORY NO. 7:

Yes.

INTERROGATORY NO. 8:

Does MASCO or any other MASCO-related entity sell or install ductwork in California?

RESPONSE TO INTERROGATORY NO. 8:

No.

INTERROGATORY NO. 9:

Is the installation of Milgard windows in California ever subject to Title 24 HERS testing?

RESPONSE TO INTERROGATORY NO. 9:

Masco does not believe that the installation of Milgard windows in California is subject to testing by a HERS rater under Title 24.

INTERROGATORY NO. 10:

Is the installation of insulation in California ever subject to Title 24 HERS testing?

RESPONSE TO INTERROGATORY NO. 10:

Masco believes that high quality installation of insulation in California can be subject to testing by a HERS rater under Title 24.

INTERROGATORY NO. 11:

Is the installations of ductwork in California ever subject to Title 24 HERS testing?

RESPONSE TO INTERROGATORY NO. 11:

Masco believes that the installation of ductwork in California can be subject to testing by a HERS rater under Title 24.

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525 MARKET STREET, [illegible] FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

INTERROGATORY NO. 12:

Has any MASCO-related entity, including, but not limited to Energy Sense, Inc ever conducted Title 24/HERS testing of a home improved with Milgard windows?

RESPONSE TO INTERROGATORY NO. 12:

Masco does not know whether any HERS rater employed by a Masco-related entity, including, but not limited to EnergySense, Inc., has conducted Title 24/HERS testing of a home improved with Milgard windows in California.

INTERROGATORY NO. 13:

Has any MASCO-related entity, including, but not limited to Energy Sense, Inc., ever conducted Title 24/HERS testing of a home improved with insulation sold or installed by a MASCO-related entity?

RESPONSE TO INTERROGATORY NO. 13:

Masco believes that HERS raters employed by EnergySense, Inc. have conducted Title 24/HERS testing of homes improved with installation installed by separate Masco installation subsidiaries operating in California.

INTERROGATORY NO. 14:

Has any MASCO-related entity, including, but not limited to Energy Sense, Inc., ever conducted Title 24/HERS testing of a home improved with ductwork sold or installed by MASCO-related entity.

RESPONSE TO INTERROGATORY NO. 14:

Masco does not believe that any HERS raters employed by any Masco-related entity, including, but not limited to EnergySense, Inc., has conducted Title 24/HERS testing of a home improved with ductwork sold or installed by a Masco-related entity in California.

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525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

INTERROGATORY NO. 15:

Has Rick Davenport, whom Claimants are informed and believe is the Vice President of Masco Home Services, Inc., ever occupied any position as either an officer, director or shareholder, of Energy Sense, Inc. between 2002 and the present?

RESPONSE TO INTERROGATORY NO. 15:

No.

INTERROGATORY NO. 16:

Has Rick Davenport, whom Claimants are informed and believe is the Vice President of Masco Home Services, Inc. ever occupied any position as either an officer, director or shareholder, of Masco Contractor Services between 2002 and the present?

RESPONSE TO INTERROGATORY NO. 16:

Masco objects to this interrogatory on the grounds that it is vague, ambiguous and not reasonably calculated to lead to the discovery of relevant and admissible evidence. Notwithstanding that objection and without waiver thereof, Masco states that "Masco Contractor Services" is not a corporation, and responds: No.

INTERROGATORY NO. 17:

Please identify all positions that David Bell has held as either an officer, director of shareholder of any Masco-related entity between 2002 through the present.

RESPONSE TO INTERROGATORY NO. 17:

President, EnergySense, Inc., August 2006 to present.

Masco Corporation shareholder

RESPONSES TO SUPPLEMENTAL SPECIAL INTERROGATORIES FROM ENERGYSENSE, INC.

INTERROGATORY NO. 1:

Do you provide information concerning your Financial Performance to MASCO?

RESPONSE TO INTERROGATORY NO. 1:

EnergySense objects to this request on the grounds that it is not reasonably calculated to lead to the discovery of relevant and admissible evidence. The financial performance of

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SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

EnergySense is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding that objection and without waiver thereof, EnergySense states that it provides information concerning its Financial Performance to Masco.

INTERROGATORY NO. 2:

Do you provide information relating to your Financial Performance to Masco Contractor Services?

RESPONSE TO INTERROGATORY NO. 2:

EnergySense objects to this request on the grounds that it is vague and not reasonably calculated to lead to the discovery of relevant and admissible evidence. The financial performance of EnergySense is irrelevant to the question presented in this proceeding: whether HERS raters employed by EnergySense comply with the HERS conflict of interest regulations. Notwithstanding that objection and without waiver thereof, EnergySense states that there is no corporation named "Masco Contractor Services," and responds: No.

INTERROGATORY NO. 3:

Has Energy Sense, Inc. performed any Title 24/HERS testing on any structure in California which incorporated Milgard windows?

RESPONSE TO INTERROGATORY NO. 3:

EnergySense objects to this request on the grounds that it is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Notwithstanding those objections and without waiver thereof, EnergySense states that it has not yet had sufficient time to review its records to determine whether any HERS rater employed by EnergySense has performed Title 24/HERS testing on any structure in California which incorporated Milgard windows. In any event, whether Milgard windows are present or not in a structure tested by HERS raters employed by EnergySense is irrelevant to this proceeding since Title 24 HERS field verification and testing does not include any testing or verification of window installations.

SONNENSCHEIN NATH & [illegible]THAL LLP
525 MARKET STREET, [illegible] FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

INTERROGATORY NO. 4:

Has Energy Sense, Inc. performed any Title 24/HERS testing on any structure in California which incorporates insulation sold and/or installed by a MASCO-related entity?

RESPONSE TO INTERROGATORY NO. 4:

HERS raters employed by EnergySense have performed Title 24/HERS testing of California homes containing insulation installed by separate Masco installation subsidiaries.

INTERROGATORY NO. 5:

Has Energy Sense, Inc. performed any Title 24/HERS testing on any structure in California which incorporates ductwork sold and/or installed by a MASCO-related entity?

RESPONSE TO INTERROGATORY NO. 5:

HERS raters employed by EnergySense have not performed Title 24/HERS testing on California homes which incorporate ductwork sold/or installed by a Masco-related entity.

INTERROGATORY NO. 6:

Has Energy Sense, Inc. performed any Title 24/HERS testing on any structure in California which was built or improved, as a contractor or subcontractor, by a MASCO-related entity?

RESPONSE TO INTERROGATORY NO. 6:

HERS raters employed by EnergySense have performed Title 24/HERS testing of California homes on which separate Masco installation subsidiaries have made improvements under subcontracts with builders.

INTERROGATORY NO. 7:

Does Energy Sense, Inc. vary the pricing of their Title 24/HERS testing services based upon the installations they are testing having been carried out by a MASCO-related entity?

RESPONSE TO INTERROGATORY NO. 7:

EnergySense does not vary the pricing for the Title 24/HERS testing services provided by the HERS raters it employs based upon the installations they are testing having been carried out by a Masco related-entity.

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525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

INTERROGATORY NO. 8:

Please provide the fees charged by Energy Sense, Inc to carry out Title 24/HERS testing within the central San Joaquin Valley.

RESPONSE TO INTERROGATORY NO. 8:

EnergySense objects to this request on the grounds that it seeks confidential and proprietary business and financial information, the disclosure of which would cause significant competitive harm to EnergySense. That information is not relevant or reasonably calculated to lead to the discovery of relevant and admissible evidence in this proceeding. Notwithstanding those objections and without waiver thereof, EnergySense states that it sets the prices for the testing services provided by its HERS raters based upon prevailing market conditions and EnergySense's own revenue and profit goals.

Dated: March 11, 2008

SONNENSCHEIN NATH & ROSENTHAL LLP

By _____
STEVEN H. FRANKEL (State Bar No. 171919)
SONNENSCHEIN NATH & ROSENTHAL LLP
525 Market Street, 26th Floor
San Francisco, CA 94105-2708
Telephone: (415) 882-2410
Facsimile: (415) 882-0300

Attorneys for Respondents
MASCO CORPORATION and
ENERGYSENSE, INC.

SONNENSCHEIN NATH & ROSENTHAL LLP
525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105-2708
(415) 882-5000

TAB 1

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "ENERGYSENSE, INC.", FILED IN THIS OFFICE ON THE ELEVENTH DAY OF AUGUST, A.D. 2006, AT 11:20 O'CLOCK A.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

4203934 8100

060753800

AUTHENTICATION: 4968557

DATE: 08-11-06

CERTIFICATE OF INCORPORATION

OF

ENERGYSENSE, INC.

1. The name of the corporation is: EnergySense, Inc.

2. The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

4. The total number of shares of stock that the corporation shall have authority to issue is One Thousand (1,000) and the par value of each of such shares is One Dollar ($1.00) amounting in the aggregate to One Thousand Dollars ($1,000).

5. The name and mailing address of the incorporator is as follows:

Sharon A. Werner
Masco Corporation
21001 Van Born Road
Taylor, Michigan 48180

6. The corporation is to have perpetual existence.

7. The board of directors is authorized to make, alter, or repeal the Bylaws of the corporation. Election of directors need not be by ballot.

I, THE UNDERSIGNED, being the incorporator of the above-named corporation, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this Certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true and accordingly have hereunto set my hand this 10th day of August 2006.

Sharon A. Werner

Sharon A. Werner

State of Delaware
Secretary of State
Division of Corporations
Delivered 11:30 AM 08/11/2006
FILED 11:20 AM 08/11/2006
SRV 060753800 - 4203934 FILE

PROOF OF SERVICE

California Living & Energy v. MASCO Corporation
ERCDC Docket No. 08-CRI-01

I, Diane Donner, hereby declare:

I am employed in the City and County of San Francisco, California in the office of a member of the bar of this court and at whose direction the following service was made. I am over the age of eighteen years and not a party to the within action. My business address is Sonnenschein Nath & Rosenthal, 525 Market Street, 26th Floor, San Francisco, California 94105.

On March 11, 2009, I served the enclosed document, filed electronically with the State of California Energy Resources Conservation and Development Commission, and described as

RESPONDENTS MASCO CORPORATION'S AND ENERGYSENSE, INC.'S RESPONSES TO COMPLAINANTS' SUPPLEMENTAL INTERROGATORIES AND REQUEST FOR PRODUCTION OF DOCUMENTS

on the interested parties in this action by placing a true copy thereof, on the above date, enclosed in a sealed envelope, following the ordinary business practice of Sonnenschein Nath & Rosenthal LLP, addressed as follows:

Brett L. Dickerson
Gianelli & Associates PLC
1014 16th Street
P.O. Box 3212
Modesto, CA 95353

Dave Hegarty
Duct Testers, Inc.
P.O. Box 266
Ripon, CA 95366

Carol A. Davis
CHEERS Legal Counsel
3009 Palos Verdes Drive West
Palos Verdes Estates, CA 90274

Galo LeBron, CEO
Energy Inspectors
1036 Commerce Street, Suite B
San Marco, CA 93078

John Richau, HERS Rater
Certified Energy Consulting
4782 N. Fruit Avenue
Fresno, CA 93705

Mike Hodgson
ConSol
7407 Tam O'Shanter Drive
Stockton, CA 95210-3370

SONNENSCHEIN NATH & ROSENTHAL LLP
525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105
(415) 882-5000

Mike Bachand
California Certified Energy Rating & Testing Services (CalCERTS)
31 Natoma Street, Suite 120
Folsom, CA 95630

Randel Riedel
California Building Performance Contractors Association (CBPCA)
1000 Broadway, Suite 410
Oakland, CA 94607

Robert Scott
California Home Energy Efficiency Rating System (CHEERS)
20422 Beach Boulevard
Huntington Beach, CA 92648

Bill Lilly, President
California Living & Energy
3015 Dale Court
Ceres, CA 95307

☑ U.S. MAIL: I am personally and readily familiar with the business practice of Sonnenschein Nath & Rosenthal for collection and processing of correspondence for mailing with the United States Postal Service, pursuant to which mail placed for collection at designated stations in the ordinary course of business is deposited the same day, proper postage prepaid, with the United States Postal Service.

☐ FACSIMILE TRANSMISSION: I caused such document to be sent by facsimile transmission at the above-listed fax number for the party.

☐ FEDERAL EXPRESS: I served the within document in a sealed Federal Express envelope with delivery fees provided for and deposited in a facility regularly maintained by Federal Express.

☐ HAND DELIVERY: I caused such document to be served by hand delivery.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on March 11, 2009, at San Francisco, California.

DIANE VIVIAN DONNER

[27282008]

SONNENSCHEIN NATH & ROSENTHAL LLP
525 MARKET STREET, 26TH FLOOR
SAN FRANCISCO, CALIFORNIA 94105
(415) 882-5000

Tab 25

Invoice

DATE	INVOICE #
5/18/2005	2005-854

CHEERS

BILL TO
Masco Contractor Services 1733 Morgan Road #250 Modesto, CA 95358

Attn: Tammy Valencia
FAX: (916) 440-8704

CHEERS
9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
2	Registration Fee...	Recertification Training Module - 6/14/05 in Stockton for Jaime Padron & Matthew Jordan	100.00	200.00
2	Registration Fee...	HVAC Training Module - 8/25 - 8/26/05 in Stockton for Jaime Padron & Matthew Jordan HVAC class is 2 days with aditional charge of $50.00 per person	150.00	300.00
2	Registration Fee...	Building Envelope Training Module - 9/14/05 in Stockton for Jaime Padron & Matthew Jordan	100.00	200.00
		REVISED INVOICE PAID 5/31/05 $600.00 CK # 12026112 BALANCE DUE $ 100.00		

Thank You.

Total $700.00

Balance Due $100.00

Customer Total Balance $15,666.00

Invoice

DATE	INVOICE #
7/19/2005	2005-1123

BILL TO
Sacramento Building Products Kristina Franquez 500 Sequoia Pacific Blvd. Sacramento, CA 95814

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 9/26-9/28/05 3 Days Lathrop Timothy Williams	700.00	700.00
1	Registration Fee...	Core Certification Training Module 9/26-9/28/05 3 Days Lathrop Josh Perez	700.00	700.00

Thank You.

Total $1,400.00

Invoice

DATE	INVOICE #
7/19/2005	2005-1124

C|H|E|E|R|S™
California Home Energy Efficiency Rating Services

BILL TO
Masco Contractor Services Jaime Padron PO Box 9651 Fresno, CA 93793-9651

CHEERS

9400 Topanga Canyon
Blvd #220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 8/23-8/25/05 3 Days Stockton Clay Darr	700.00	700.00
1	Registration Fee...	Core Certification Training Module 8/23-8/25/05 3 Days Stockton Mark Boone	700.00	700.00

Thank You.

Total $1,400.00

Balance Due $1,400.00

Customer Total Balance $1,400.00

Invoice

DATE	INVOICE #
5/25/2005	2005-889

BILL TO

Masco Contractor Services
Hampton Renaissance Project
PO Box 9651
Fresno, CA 93793-9651

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Recertification Training Module For: Israel Calleros 6/29/2005	100.00	100.00
1	Registration Fee...	HVAC Training Module For: Israel Calleros 8/25 - 8/26/2005 (2) days	150.00	150.00
1	Registration Fee...	Building Envelope Training Module For Israel Calleros 9/19/05 HVAC class has been revised to a 2 day class with the additional charged of $50.00	100.00	100.00

Total $350.00

Invoice

DATE	INVOICE #
1/2/2006	2006-1614

BILL TO
Sacramento Building Products Kristina Franquez 500 Sequoia Pacific Blvd. Sacramento, CA 95814

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 1/10-1/12/06 3 Days Lathrop Corey Bernhardt	700.00	700.00

Thank You.

Total $700.00

Invoice

DATE	INVOICE #
1/2/2006	2005-1615

BILL TO
Sacramento Building Products 857 Levin Ave. Tulare, CA 93274

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 1/24-1/26/06 3 Days Downey Marco Vacca	700.00	700.00

Thank You.

Total $700.00

Invoice

DATE	INVOICE #
1/2/2006	2006-1617

BILL TO
Coast Building Products 1920 Mark Court, Suite 100 Concord, CA 94520

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 1/10-1/12/06 3 Days Lathrop Mike Smit ********** CORRECTED INVOICE********** 1/9/06 Transferred back into the 1/10/06 class in Lathrop	700.00	700.00

Thank You.

Total $700.00

Invoice

DATE	INVOICE #
1/2/2006	2006-1683

BILL TO
Coast Building Products 1920 Mark Court, Suite 100 Concord, CA 94520

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 1/10-1/12/06 3 Days Lathrop Brandon Wood	700.00	700.00

Thank You.

Total $700.00

Invoice

DATE	INVOICE #
2/15/2006	2006-1855

BILL TO

Sacramento Building Products
857 Levin Ave.
Tulare, CA 93274

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 3/01-3/03/06 3 Days Downey Shaun O'Dell	700.00	700.00

Deadline for payment for this class is 02/23/06

Total $700.00

Invoice

DATE	INVOICE #
3/28/2006	2006-2100

BILL TO
Coast Building Products(SAN JOSE)MASCO 1341 Old Oakland Road San Jose, CA 95112

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	Core Certification Training Module 4/11-4/13/06 3 Days Lathrop Terry Legate	700.00	700.00

Thank You.

Total $700.00

Invoice

DATE	INVOICE #
9/15/2006	2006-8094

BILL TO
Sacramento Building Products Kristina Franquez 500 Sequoia Pacific Blvd. Sacramento, CA 95814

CHEERS

9400 Topanga Canyon Blvd
#220
Chatsworth, CA 91311

QTY	ITEM CODE	DESCRIPTION	PRICE EACH	AMOUNT
1	Registration Fee...	HVAC Training Module Corey Bernhardt	150.00	150.00

Thank You.

Total $150.00

Tab 26

C|H|E|E|R|S

9400 Topanga Canyon, Suite 220
Chatsworth, California 91311
Phone: 800-424-3377 x2
Fax: 866-505-8618
E-mail: dcarton@cheers.org

Invoice

Invoice no: 2007-1809
Invoice date: 6/1/2007
Due date: 6/1/2007

To:

EnergySense
500 Sequoia Pacific Blvd.
Sacramento, California 95814

Sales Person		**Contact name**	Arika Johnson
Delivery date		**Payment terms**	Due on receipt

Qty.	Item	Description	Unit Price	Discount	Line Total
7	Registration Fee - HVAC Training	8/16-17/2006 - Brandon Wood, Randy Toy, Mike Smit, David Short, Israel Calleros, Mark Boone, Timothy Williams	$150.00		$1,050.00
6	Registration Fee - Building Env Training	8/15/2006 - Mark Boone, David Short, Mike Smit, Brando Wood, Timothy Williams, Randy Toy	$100.00		$600.00
1	Registration Fee - Building Env Training	8/29/2006 - Marco Vaca Per David Short and Keith Telligman - they were never invoiced for these folks to attend training	$100.00		$100.00

Subtotal	$1,750.00
Sales tax	$0.00
Total	$1,750.00

C|H|E|E|R|S
9400 Topanga Canyon, Suite 220
Chatsworth, California 91311

C|H|E|E|R|S

EnergySense
Arika Johnson
500 Sequoia Pacific Blvd.
Sacramento, California 95814

Date: August 8, 2007
Invoice # 2007-2064

Name	Description	Qty	Unit Price	Line Total
Registration Fee - Solar	Joshua Perez - 8/1-2/07	1	$250.00	$250.00
Registration Fee - Building Env Training	Joshua Perez - 7/25/07	1	$100.00	$100.00
[redacted]				

CHEERS

20422 Beach Blvd Suite 235
Huntington Beach, CA 92648
US
Phone: 7145004440
Fax: 8665058618
E-mail: lseers@cheers.org

Cash Sale

Cash Sale No: 2008-1058
Cash Sale date: 4/15/2008
Reference: 2008-1058

To:

EnergySense
1441 Coldwell Ave., Suite D
Modesto, California 95350

Sales Person		**Contact name**	Donna Wilson
Delivery date		**Payment method**	Check

Qty.	Item	Description	Unit Price	Discount	Line Total
5	Registration Fee - Solar	Corey Bernhardt, Israel Calleros, Matthew Jordan, Jaime Padron, Tim Williams - April 4-11, 2008	$300.00		$1,500.00

Subtotal $1,500.00
Sales tax $0.00
Total $1,500.00

CHEERS
20422 Beach Blvd Suite 235
Huntington Beach, CA 92648

C|H|E|E|R|S

Date: April 21, 2008
Invoice # **2008-1203**
Invoice Date: 4/21/2008

EnergySense
Jaime Padron
1441 Coldwell Ave., Suite D
Modesto, California 95350

Item	Description	Qty	Unit Price	Line Total
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Registration Fee - HVAC Training	Joshua Perez - November 14-15, 2007	1	$150.00	$150.00
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	JANUARY 1-31, 2008			
			Subtotal	[redacted]
			Total	[redacted]

All invoices are due upon receipt.

Please make all checks payable to:
CHEERS
20422 Beach Blvd Suite 235
Huntington Beach, CA 92648
7145004440|P 7145004459|F dcarton@cheers.org

To pay by credit card, simply circle the appropriate card type then fill in the information below and return to CHEERS.

CHEERS
20422 Beach Blvd Suite 235
Huntington Beach, CA 92648

C|H|E|E|R|S

Date: April 24, 2008
Invoice # **2008-1293**
Invoice Date: 4/24/2008

EnergySense
Jaime Padron
1441 Coldwell Ave., Suite D
Modesto, California 95350

Item	Description	Qty	Unit Price	Line Total
Registration Fee - Existing Home Training	Jaime Padron - May 6-9, 2008	1	$800.00	$800.00
			Subtotal	$800.00

All invoices are due upon receipt. *Total* **$800.00**

Please make all checks payable to:
CHEERS
20422 Beach Blvd Suite 235
Huntington Beach, CA 92648
7145004440|P 7145004459|F dcarton@cheers.org

To pay by credit card, simply circle the appropriate card type then fill in the information below and return to CHEERS.

PayPal VISA AMEX DISCOVER eCHECK

Card Number **Expiration Date** **Card Security Code***

Please print name as it appears on the card

Signature $ **Authorized Amount**

*Card Security Code - final 3 digit number on back of card. If using AMEX, it is a 4-digit number on the front of the card

Thank you for your business!

CHEERS

20422 Beach Blvd Suite 235
Huntington Beach, CA 92648
US
Phone: 7145004440
Fax: 8665058618
E-mail: lseers@cheers.org

Cash Sale

Cash Sale No: 2008-1566
Cash Sale date: 4/30/2008
Reference: 2008-1566

To:

EnergySense
1441 Coldwell Ave., Suite D
Modesto, California 95350

Sales Person		**Contact name**	Jaime Padron
Delivery date		**Payment method**	Check

Qty.	Item	Description	Unit Price	Discount	Line Total
1	Registration Fee - CORE Training	David Baer - June 3-5, 2008	$600.00		$600.00

Subtotal $600.00
Sales tax $0.00
Total $600.00

CHEERS

20422 Beach Blvd Suite 235
Huntington Beach, CA 92648
US
Phone: 7145004440
Fax: 8665058618
E-mail: lseers@cheers.org

Cash Sale

Cash Sale No: 2008-1058
Cash Sale date: 4/15/2008
Reference: 2008-1058

To:

EnergySense
1441 Coldwell Ave., Suite D
Modesto, California 95350

Sales Person		**Contact name**	Donna Wilson
Delivery date		**Payment method**	Check

Qty.	Item	Description	Unit Price	Discount	Line Total
5	Registration Fee - Solar	Corey Bernhardt, Israel Calleros, Matthew Jordan, Jaime Padron, Tim Williams - April 4-11, 2008	$300.00		$1,500.00

Subtotal	$1,500.00
Sales tax	$0.00
Total	$1,500.00

CHEERS

20422 Beach Blvd Suite 235
Huntington Beach, CA 92648
US
Phone: 7145004440
Fax: 8665058618
E-mail: lseers@cheers.org

Cash Sale

Cash Sale No: 2008-2805
Cash Sale date: 1/20/2009
Reference: MasterCard 1016 Appr Code 9SS884

To:

EnergySense
1441 Coldwell Ave., Suite D
Modesto, California 95350

Sales Person		**Contact name**	Jaime Padron
Delivery date		**Payment method**	Online Credit Card

Qty.	Item	Description	Unit Price	Discount	Line Total
1	Registration Fee - Federal Tax Credit Training	Jaime Padron - January 21, 2009	$50.00		$50.00

Subtotal $50.00
Sales tax $0.00
Total $50.00

INVOICE

CHEERS
20422 Beach Blvd Suite 235
Huntington Beach, CA 92648

C|H|E|E|R|S

Date: January 22, 2009
Invoice # **2007-2301**
Invoice Date: 9/30/2007

EnergySense
Donna Wilson
1441 Coldwell Ave., Suite D
Modesto, California 95350

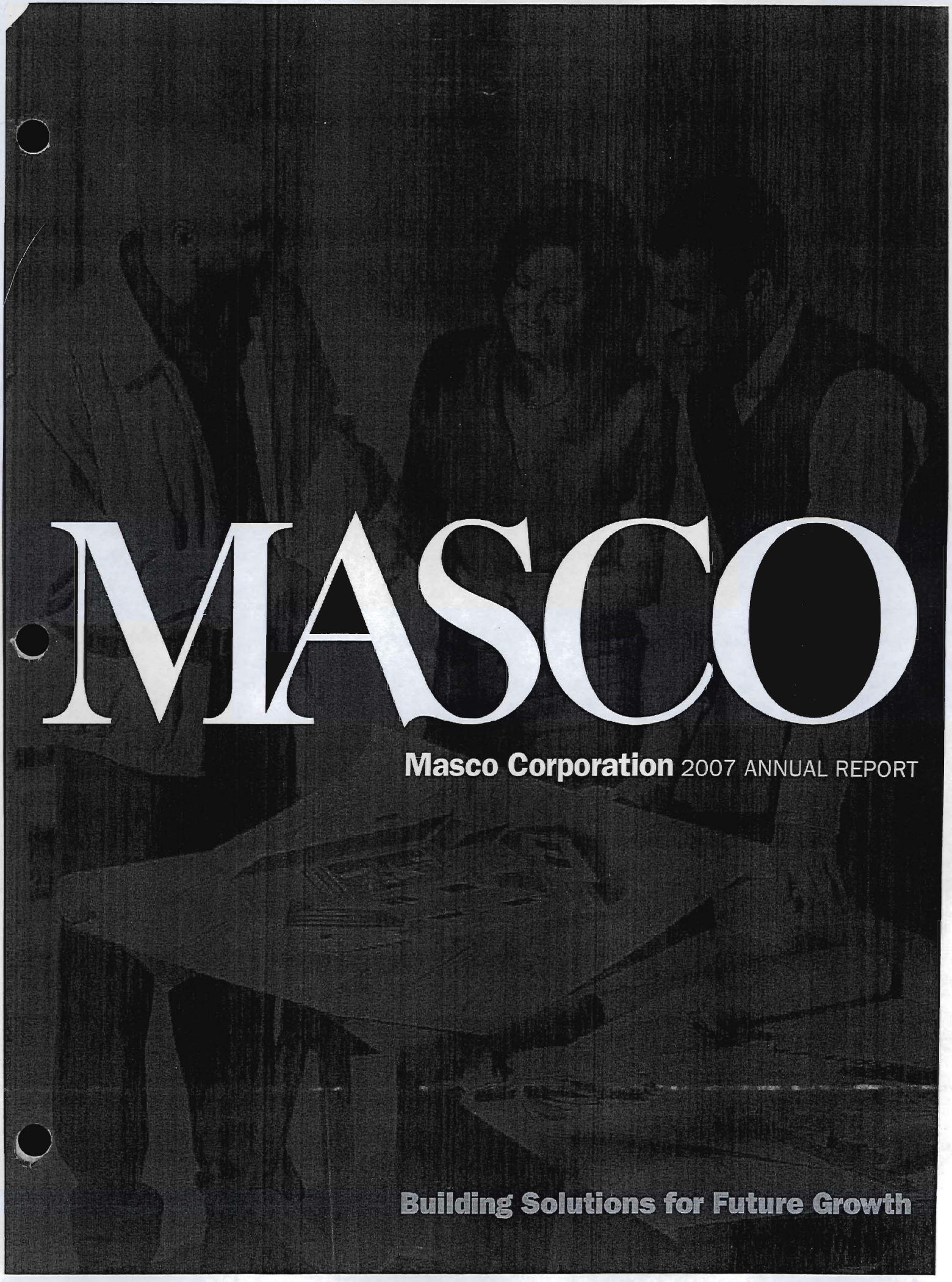
Name	Description	Qty.	Unit Price	Line Total
Registration Fee - CORE Training	Core Certification Training Module - Cody Kidd - October 2-4, 2007	1	$700.00	$700.00
Registry Subscription Fee	Code Kidd - 2007 partial 2 months	1	$20.00	$20.00
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

SEPTEMBER 1-30, 2007

Subtotal [redacted]

All invoices are due upon receipt. *Total* [redacted]

Tab 27


MASCO
Masco Corporation 2007 ANNUAL REPORT
Building Solutions for Future Growth

About the Cover

Masco is building solutions for future growth through geographic expansion, new product innovation, further development of our Installation and Other Services segment and expansion with our retail, homebuilder and wholesale partners. Through the Environments For Living® program, which provides homeowners with energy efficient and environmentally friendly homes, we are able to capitalize on emerging trends in green building.

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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.

Financial Highlights

Dollars In Millions, Except Per Common Share Data

	51-Year Growth Rate	5-Year Growth Rate	2007 vs 2006	2007	2006	2002	1956
Net Sales	15%	7%	-7%	$11,770	$12,718	$ 8,531	$ 11
Operating Profit [1, 2]	15%	-5%	-16%	$ 959	$ 1,140	$ 1,211	$ 1
Income from Continuing Operations [1, 2, 3]	14%	-8%	-17%	$ 397	$ 478	$ 600	$ 0
Income from Continuing Operations as a % of Net Sales [1, 2, 3]				3%	4%	7%	4%
Per Common Share Data:							
Income from Continuing Operations [1, 2, 3]	12%	-2%	-12%	$ 1.06	$ 1.20	$ 1.17	$0.00 5/16
Cash Dividends Paid	15%	11%	6%	$ 0.91	$ 0.86	$ 0.54 1/2	$0.00 1/16

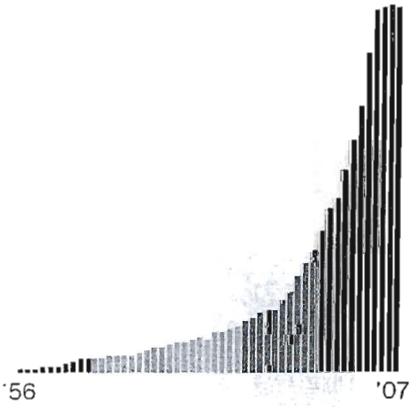
Amounts exclude discontinued operations.

1 The year 2007 included non-cash impairment charges for goodwill and other intangible assets aggregating $208 million after tax ($227 million pre-tax).

2 The year 2006 included non-cash impairment charges for goodwill aggregating $317 million after tax ($317 million pre-tax) and income regarding litigation settlement of $1 million after tax ($1 million pre-tax).

3 The years 2007, 2006 and 2002 included non-cash impairment charges for financial investments aggregating $14 million after tax ($22 million pre-tax), $66 million after tax ($101 million pre-tax) and $16 million after tax ($24 million pre-tax), respectively.

HISTORICAL SALES
1956–2007



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MARCH 2008

To Our Shareholders:

During Masco's more than 75-year history, we have rarely witnessed more challenging times than the difficult economic environment we are currently experiencing. Companies throughout the new home construction and home improvement industries have been hit hard, including Masco. Even our repair and remodeling sales, which historically performed well during new home construction downturns, are lagging as consumers defer major remodeling of their kitchens and bathrooms.

Throughout the year, we continued to take actions to mitigate the impact of deteriorating economic conditions. We significantly reduced costs by divesting non-strategic businesses and consolidating plants and, over the past four years, have reduced the number of our operating units from 67 businesses in 2003 to 29 businesses currently. We continued to selectively invest capital in our businesses to maximize returns and, in the past 18 months, have lowered our headcount by 11,000 employees (22 percent of our North American workforce). We continued to introduce new products to build solutions for our customers. Even with these actions, our sales declined seven percent in 2007. In the past 51 years, this is only the second sales decline Masco has experienced.

These challenging times, however, have been the catalyst for further differentiating Masco from our competition. We believe that Masco's unique market strength is the combination of four key factors – our scale, customer service support, distribution and installation capabilities and leading brands – that continue to distance us from the competition, even in difficult times.

Masco's scale and broad product offerings are unmatched in the new home construction and home improvement markets. The breadth of our brand portfolio positions us to compete at multiple price points across all distribution channels. In addition, our scale and our ability to generate and sustain strong cash flow give us the ability to maintain and grow relationships throughout the markets in which we do business.

Over the past few years, Masco has significantly invested in customer service support for our major customers. We now have more than 1,000 full-time employees working with our retail and wholesale customers on merchandising, inventory management, promotions and training. Masco is able to customize our dedicated support to align with specific customer needs. For example, we have more than 200 kitchen design trainers whose main focus is supporting our retail and dealer customers. This competitive differentiation and expertise uniquely position us to improve the consumer's in-store experience.

Our distribution and installation capabilities are a significant competitive advantage. We provide industry-leading delivery to our retail, wholesale and homebuilder customers.

Masco is well positioned in all three of our key distribution channels. We provide both premium and house brands to our retail customers. For the new home construction market, in addition to traditional wholesale and dealer channels, we have a direct-to-builder model that allows us to sell Masco products, third party products and installation services directly. To our wholesale and dealer customers, we provide merchandising expertise and product and sales training.

Perhaps most importantly, over the years Masco has developed a critical mass of leading brands that are well respected. Our brands create and drive end-user demand in both the new home

GA 000100

Timothy Wadhams
President and
Chief Executive Officer

Richard A. Manoogian
Executive Chairman

construction and home improvement markets. We leverage our collection of brands by taking advantage of the natural synergies that exist among them, and we continually support our brands through new product innovations. The cumulative strength of these key areas is the foundation of our Company and has enabled us to continue to solidify our position in the marketplace.

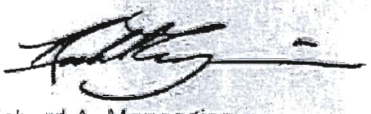
Even in this difficult economic environment, we were able to raise our quarterly dividend for the 49th consecutive year. We maintained a strong balance sheet and also returned $1.2 billion to shareholders through share repurchases and dividends.

Our competitive differentiation, together with our more than 52,000 talented, dedicated and committed employees worldwide, form a solid foundation for future success. In recent years, when we faced the retirement of a number of senior executives, the depth of our existing talent and our reputation as an outstanding employer allowed us to promote from within as well as recruit exceptional talent from outside to join Masco. Today, with almost 75 percent of our senior management team new to their current positions within the last five years, we have developed a leadership team that will carry us into the future.

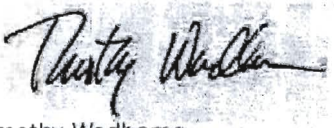
As we reflect on 2007, we would especially like to thank our former President and Chief Operating Officer, Alan Barry. who retired at the end of 2007. We are all indebted to Alan for his dedication to Masco during his many years of service and for his guidance in helping to build the Company we are today.

In looking at 2008, the slowdowns in new home construction and in consumer spending continue to negatively affect our business. We expect 2008 to be even more challenging than 2007. As a result, while forecasting future business conditions in the current uncertain economic environment remains challenging, we currently estimate that 2008 sales will decline high-single to low-double digits compared with 2007.

We are responding to today's economy, while, at the same time, using our collective strength to build solutions for future growth. We are working to create a stronger Company, positioned to benefit when the industry recovers. We continue to believe that our focus on developing and leveraging our collective strengths will result in significant benefits for our shareholders, customers, consumers and employees.



Richard A. Manoogian
Executive Chairman



Timothy Wadhams
President and Chief Executive Officer

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Product Segments

Masco's market strength is the cumulative service support, distribution & installation

PLUMBING PRODUCTS

This segment includes faucets; plumbing fittings and valves; showerheads and hand showers; bathtubs and shower enclosures; and spas.

- **2007 net sales:** $3.5 billion
- The Company believes that it is a world leader in manufacturing plumbing products.
- Masco has broad channel access globally through our premier brands.

DELTA® FAUCET COMPANY

hansgrohe®

CABINETS AND RELATED PRODUCTS

This segment includes assembled and ready-to-assemble kitchen and bath cabinets; home office workstations; entertainment centers; storage products; bookcases; and kitchen utility products.

- **2007 net sales:** $2.8 billion
- The Company believes that it is the largest U.S. manufacturer of kitchen and bath cabinetry, offering approximately 300 styles in more than 20 product lines.
- Masco has more than 200 kitchen design trainers supporting retail and dealer customers.

KraftMaid®

Merillat®

INSTALLATION AND OTHER SERVICES

This segment includes the sale, installation and distribution of insulation; as well as the installation of cabinetry, gutters, fireplaces, garage doors, bath accessories, windows, paint and other building products.

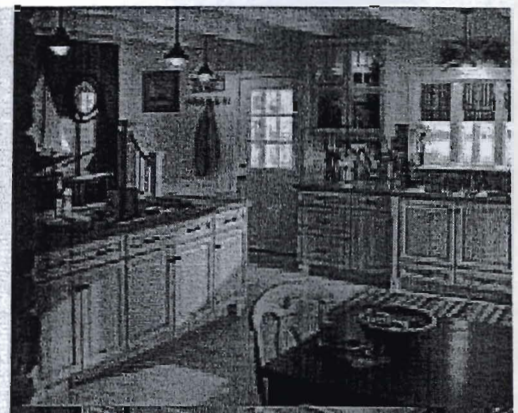
- **2007 net sales:** $2.6 billion
- The Company believes that it is one of the largest providers of a variety of installed products for homebuilders across the United States.
- Masco Contractor Services provides homebuilders with totally integrated supply chain solutions, from product procurement to job site delivery and installation.

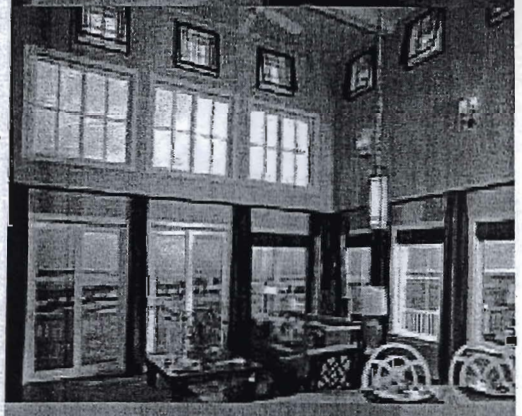
MASCO℠ Contractor Services

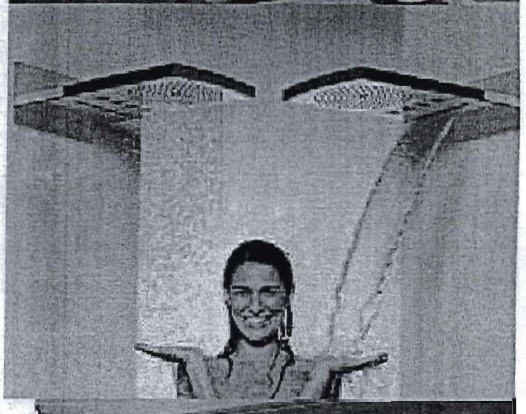
SERVICE® partners

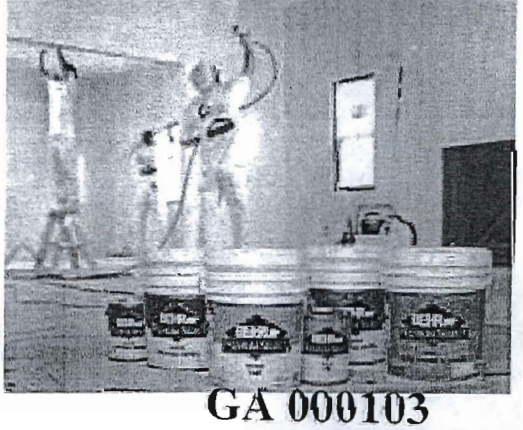
GA 000102

result of our scale, customer capabilities and leading brands.









DECORATIVE ARCHITECTURAL PRODUCTS

This segment principally includes paints and stains; and door, window and other hardware.

- **2007 net sales:** $1.8 billion
- The Company believes that it is the largest supplier of architectural coatings to the North American do-it-yourself market.
- Masco has more than 400 field service representatives serving our customers in North America.

BEHR®
GOOD. BETTER. BEHR.

OTHER SPECIALTY PRODUCTS

This segment includes windows, window frame components and patio doors; staple gun tackers, staples and other fastening tools; and hydronic radiators and heat convectors.

- **2007 net sales:** $1.1 billion
- The Company believes that it is the leading manufacturer of vinyl and fiberglass windows in the western United States.

Milgard® WINDOWS & DOORS

Brands noted on pages 4–5 each had 2007 net sales in excess of $500 million.

GA 000103

Financial Results

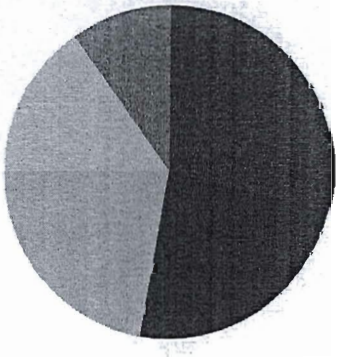
SHAREHOLDER RETURNS

- The Company has returned over $6 billion to shareholders through share repurchases and dividends for the five-year period ended December 31, 2007. The Company expects to continue to return a minimum of $1 billion annually to shareholders, on average, through share repurchases and dividends as part of its ongoing commitment to value creation.

Share Repurchases

- The Company repurchased 31 million shares of its common stock during 2007 and had 41 million shares remaining at December 31, 2007 under the July 2007 Board of Directors repurchase authorization of 50 million shares.
- Masco repurchased 157 million common shares in the last five years, representing approximately 32 percent of the shares outstanding at the beginning of the five-year period.

2007 NET SALES BY SEGMENT
(Percent of Total Net Sales)



Plumbing Products	29%
Cabinets and Related Products	24%
Installation and Other Services	22%
Decorative Architectural Products	15%
Other Specialty Products	10%

Cash Dividends

- The Company increased its quarterly dividend in 2007 by five percent to $.23 from $.22 per common share. The new quarterly dividend reflects the Company's favorable long-term outlook, strong balance sheet and cash flow, and makes 2007 the 49th consecutive year in which the quarterly dividend was increased.

Cash Returned to Shareholders

- In 2007 and 2006, the Company returned $1.2 billion each year to shareholders through share repurchases and dividends.

FINANCIAL REVIEW

- Net sales from continuing operations for 2007 declined seven percent to $11.8 billion compared with the $12.7 billion achieved in 2006.
- Net sales from North American operations, accounting for 79 percent of the Company's net sales, declined 12 percent to $9.3 billion in 2007. Net sales of $2.5 billion from International operations, principally in Europe, increased 15 percent compared with 2006.
- For the full-year 2007, income from continuing operations was $397 million or $1.06 per common share, including non-cash impairment charges for goodwill and other intangible assets and financial investments, and costs and charges related to business rationalizations and other initiatives. For the full-year 2006, income from

GA 000104

continuing operations was $478 million or $1.20 per common share, including non-cash impairment charges for goodwill and financial investments, and costs and charges related to profit improvement programs.

- Operating profit margins were 8.1 percent in 2007 compared with 9.0 percent in 2006. Operating profit margins were adversely impacted by impairment charges for goodwill and other intangible assets, the continued decline in the new home construction market, a moderation in consumer spending for home improvement products, as well as costs and charges related to business rationalizations and other initiatives.

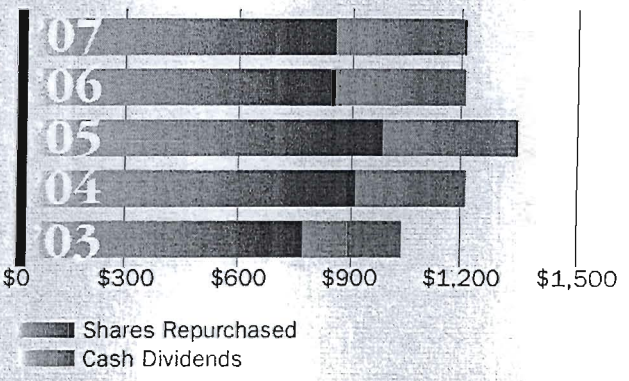
Capital Expenditures

- Capital expenditures were $248 million or 2.1 percent of sales in 2007 compared with $388 million or 3.1 percent of sales in 2006. Depreciation and amortization expense was $248 million in 2007 compared with $244 million in 2006.

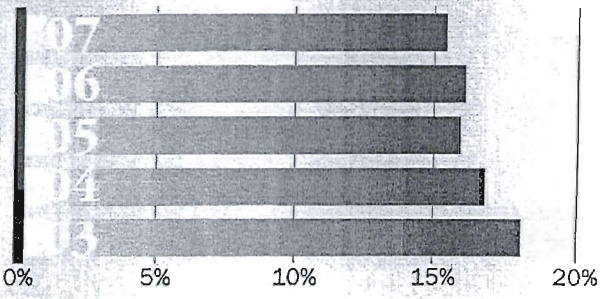
Cash Flow

- In 2007, the Company achieved free cash flow (defined as cash from operations less capital expenditures and before dividends) of approximately $980 million. For the five-year period ended December 31, 2007, the Company's free cash flow aggregated $5 billion.

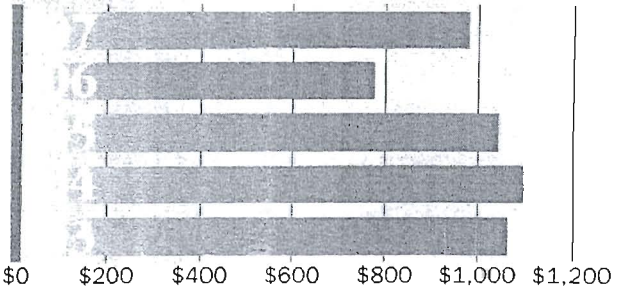
CASH RETURNED TO SHAREHOLDERS
(In Millions)



NET WORKING CAPITAL AS A % OF NET SALES
(In Percent)



FREE CASH FLOW
(In Millions)



GA 000105

Working Capital

- Working capital (defined as accounts receivable and inventories less accounts payable) as a percent of sales improved to 15.4 percent at December 31, 2007 compared with 16.1 percent at December 31, 2006.

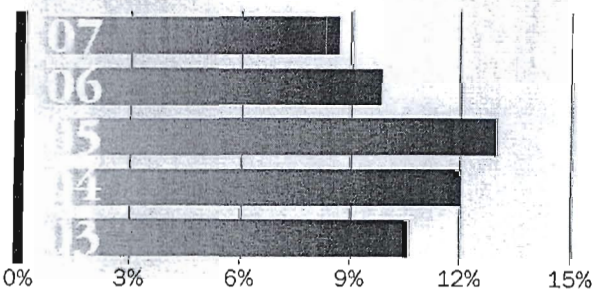
Liquidity

- The Company ended 2007 in a strong financial position with over $900 million in cash, even after using $857 million to repurchase common shares in 2007.
- During 2007, the Company issued $300 million of floating-rate notes due 2010 and $300 million of fixed-rate 5.85% notes due 2017, resulting in net proceeds of $596 million. The notes were issued in consideration of 2007 debt maturities.
- In January 2007, the Company repurchased, for $825 million of cash, the accreted value (94 percent of the total outstanding) of its Zero Coupon Convertible Senior Notes which were put to the Company in accordance with their terms.
- In 2007, the Company generated $108 million of cash from the net disposition of financial investments and $45 million from the net disposition of certain businesses and used $203 million for acquisitions.
- Debt as a percent of total capital was 50 percent at December 31, 2007 compared with 53 percent at December 31, 2006.

Return on Invested Capital

- For the 12 months ended December 31, 2007 and December 31, 2006, return on invested capital was 8.6 percent and 9.8 percent, respectively. While we remain highly committed to the continued improvement in our return on invested capital, recent macro business trends have resulted in a reduction in operating profit over the last several quarters that has negatively impacted our return on invested capital. We continue to believe that we will achieve our long-term return on invested capital goal of approximately 18 percent; however, timing of this goal is uncertain until there is more clarity in the recovery of the new home construction and home improvement markets.

RETURN ON INVESTED CAPITAL
(In Percent)



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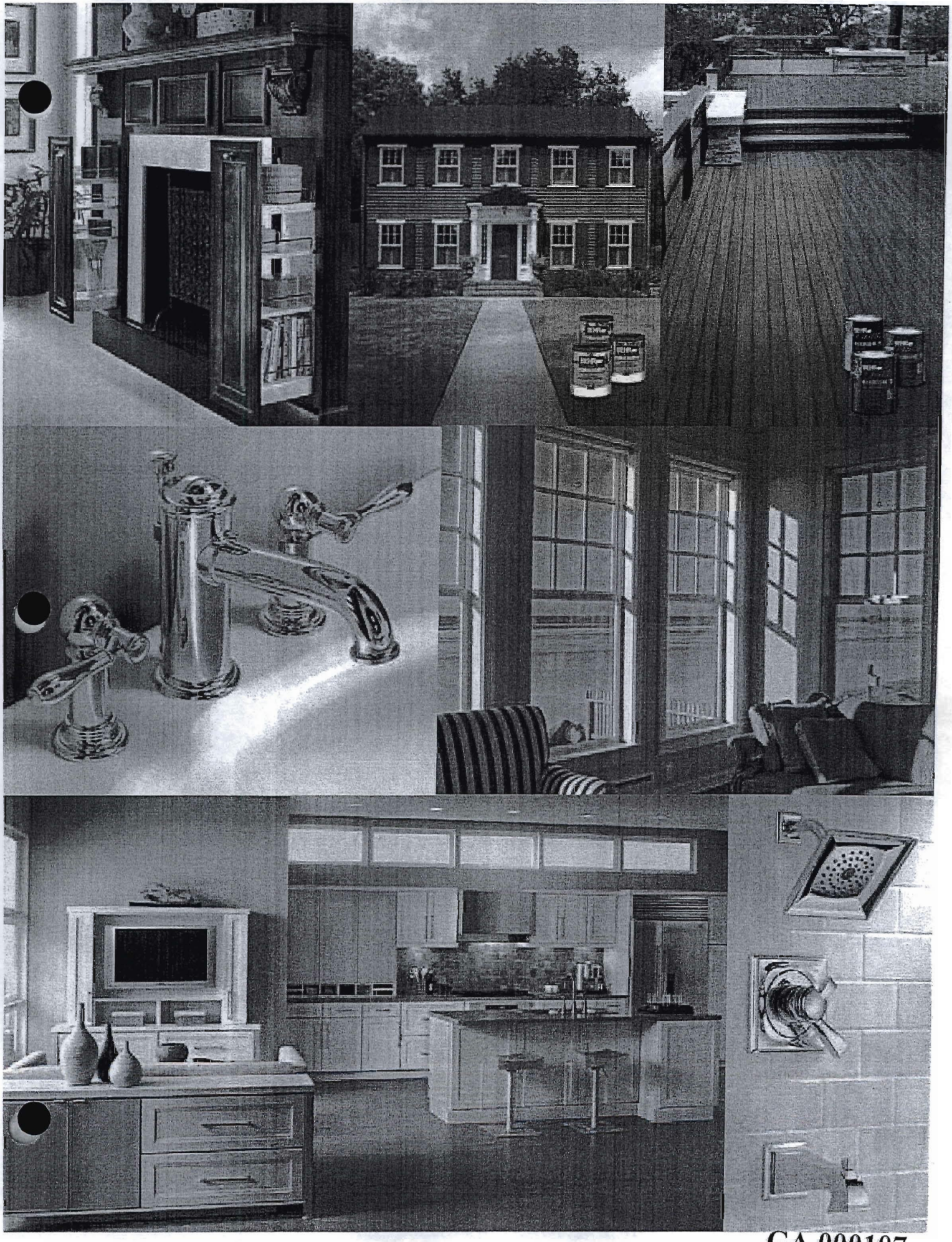

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Outlook for Future Growth

In spite of the current economic conditions, we continue to believe that our markets provide Masco with favorable long-term growth.

Demographics support sustainable long-term demand for new homes as a result of strong new household formations. The housing stock continues to age and, as a result, we believe maintenance and home improvement spending will steadily increase. When consumers invest in their homes, typically it is to remodel kitchens and bathrooms. The home remains the largest and most important personal investment for most Americans.

For the short term, the markets for our products remain very challenging. We believe, however, that we have multiple avenues for profitable growth in the future, including geographic expansion, new product innovation, further development of our Installation and Other Services segment and expansion with our retail, homebuilder and wholesale partners.

We continually focus on expanding our geographic presence not only to penetrate additional national and international markets, but to become a global supplier in other product categories. Our Hansgrohe plumbing operation in Germany is a good example of a global style leader with proven international growth capabilities. Hansgrohe has expanded into Asian markets as well as Eastern European markets. Hansgrohe continues to leverage its well-known brands by offering related bathroom products to penetrate other high-growth emerging markets. In addition, Hansgrohe's successful market strategy is being utilized by other Masco operating units.

Installation and Other Services is a unique growth vehicle for Masco. Masco Contractor Services (MCS) currently sources, distributes and installs more than 20 different product categories for homebuilders nationally. With our established infrastructure and national supply chain, additional Masco products as well as non-Masco products can be added to our Installation and Other Services capabilities, resulting in incremental opportunities and sales growth.

We also continue to invest in enterprise resource planning (ERP) systems. At MCS, we have a major ERP system implementation project underway which creates a shared service center for our contracting locations that handles administrative functions such as invoicing, purchasing and vendor management. This ERP system will not only reduce costs, but enable our contracting locations to better focus on the customer. The pilot program for this new ERP system began in December 2007.

GA 000108

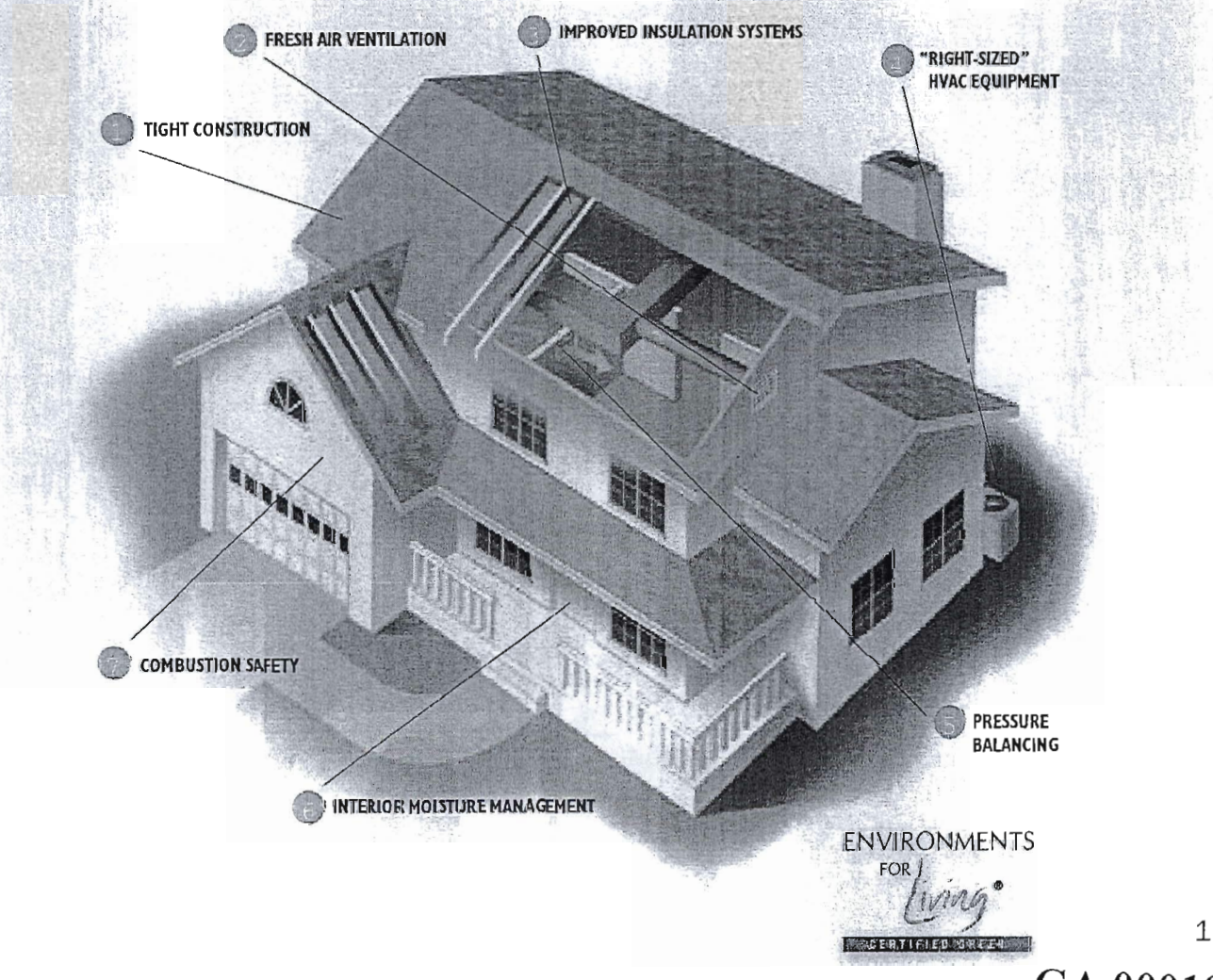
Masco is recognized as a leader in Building Science and the construction of energy efficient homes. To date, more than 100,000 homes around the United States have been built to the Environments For Living® program specifications, and Masco is working with national and local builders to plan, construct and certify even more homes under this program.

We expanded the Environments For Living program to capitalize further on emerging trends in green building. The Environments For Living Certified Green℠ program expands existing energy efficiency and home comfort specifications by adding requirements to help conserve water, improve indoor air quality and further reduce overall energy consumption through the use of Energy Star® certified products.

In addition, in 2007, MCS and General Electric Company (GE) worked together to couple the GE ecomagination® initiative and the Environments For Living Certified Green program into a new GE program, called ecomagination Homebuilder Program, that helps homebuilders and developers construct state-of-the-art, durable and environmentally friendly homes. This collaboration combines GE's high-performance products with Masco's advanced principles of Building Science.

These programs allow for substantial growth opportunities with the increasing environmentally conscious consumers who appreciate

"ecomagination" is a registered mark of General Electric Company.



GA 000109

comfort, but also value durability and protecting the environment. They are already generating significant interest and have been well received by developers, homebuilders and consumers.

Masco is committed to helping concerned consumers identify simple ways to incorporate conservation into their everyday lives. We believe there is substantial growth opportunity in becoming a leader in the development of green building products. Delta Faucet Company recently introduced the Lahara™ collection, a new line of faucets that received WaterSense® certification by the U.S. Environmental Protection Agency for promoting and enhancing water-efficient products. The Lahara collection leads the way in providing concerned consumers with water conservation without sacrificing experience.

We continue to accelerate the speed of new and updated product launches to bring to market what the consumer desires. Masco's window companies continue to provide premium quality vinyl windows while adding enhanced features. For example, Milgard's SmartTouch™ lock was engineered to provide homeowners with a simple, one-touch operation to close and lock the window. When the window is locked, the one-touch mechanism is recessed into the window, allowing the homeowner to easily verify that the window is secure. In addition, our cabinet companies provide options for the individual consumer in response to their needs. The Masco Builder Cabinet Group added new options to its universal access line in the Quality Cabinets® brand to meet the needs of aging or physically challenged consumers who require additional assistance and convenience.

Through the strength of our leading consumer brands, we are able to introduce innovative new products. Behr's kitchen and bath enamel coating, with improved mildew and stain resistance, contains NanoGuard® technology for a superior paint coating. Behr also recently introduced Behr Premium Plus Ultra™, a revolutionary (patent pending) exterior paint and primer in one that features both NanoGuard technology and improved protection against damage from sunlight, moisture, stains and dirt.

To further enhance our market position, Masco continues to invest in product technology. Delta Faucet Company recently previewed its patent pending Diamond™ Seal Technology, a revolutionary advancement in valve design. Diamond Seal Technology significantly extends faucet performance and effectively eliminates the potential for faucet leaks or failures, while at the same time enabling Delta to engineer contaminant-free waterways – all with the goal of increasing customer satisfaction and helping to deliver the purest water possible.

The incremental growth of our retail, homebuilder and wholesale partners should result in future sales growth for Masco. Our strong presence with our retail partners results in our benefiting from their new store openings, new programs and entry into new markets. As our channel partners continue to consolidate suppliers to support their own geographic growth, Masco is in a unique position to be a preferred partner as a supplier of multiple products.

Given our many strengths and our proven historical growth record, we continue to view the future with optimism. Our numerous growth opportunities make us confident that we can remain one of the largest and most important global manufacturers and national providers of building and home improvement products and services. We believe that our strategy, together with the leveraging of our market strength, will allow Masco to continue to differentiate itself and drive long-term growth.

"Energy Star" and "WaterSense" are registered trademarks of the U.S. Environmental Protection Agency.

GA 000110

Corporate Leadership

CORPORATE OFFICERS

William T. Anderson
Vice President–Controller

Ronald W. Ayers
Group President

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

Maria C. Duey
Vice President–Investor Relations

Eugene A. Gargaro, Jr.
Vice President and Secretary

Charles F. Greenwood
Vice President–Human Resources

John R. Leekley
Senior Vice President and
General Counsel

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–Strategic Planning
and Group Vice President

Barry J. Silverman
Vice President–Associate
General Counsel

John G. Sznewajs
Vice President, Treasurer and
Chief Financial Officer

David W. Van Hise
Vice President–International

Jerry Volas
Group President

Thomas Voss
President–Masco Europe

Timothy Wadhams
President and
Chief Executive Officer

BOARD OF DIRECTORS

Dennis W. Archer [1, 3]
Chairman
Dickinson Wright PLLC

Thomas G. Denomme [1, 3]
Retired Vice Chairman and
Chief Administrative Officer
Chrysler Corporation

Peter A. Dow [1, 2]
Retired Vice Chairman, Chief Operating Officer and Executive Committee Chairman
Campbell-Ewald

Anthony F. Earley, Jr. [1, 3]
Chairman and Chief Executive Officer
DTE Energy Company

Verne G. Istock [1, 2, 3]
Retired Chairman and President
Bank One Corporation

David L. Johnston [2, 3]
President and Vice Chancellor
of the University of Waterloo
in Ontario, Canada

J. Michael Losh [1, 2]
Retired Chief Financial Officer
and Executive Vice President
General Motors Corporation

Richard A. Manoogian
Executive Chairman
Masco Corporation

Lisa A. Payne [1]
Vice Chairman and
Chief Financial Officer
Taubman Centers, Inc.

Mary Ann Van Lokeren [2, 3]
Retired Chairman and
Chief Executive Officer
Krey Distributing Company

Timothy Wadhams
President and
Chief Executive Officer
Masco Corporation

[1] *Member of Audit Committee*

[2] *Member of Organization and Compensation Committee*

[3] *Member of Corporate Governance and Nominating Committee*

GA 000111

Certifications

Timothy Wadhams and John G. Sznewajs 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, 2007.

As required by the New York Stock Exchange (NYSE), on May 22, 2007, Richard A. Manoogian 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.

GA 000112

Information for Shareholders

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 and other building products, 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.

As of December 31, 2007, the Company had more than 52,000 employees and approximately 120 manufacturing facilities. Masco's principal manufacturing facilities are located throughout the United States. International operations are located principally in Europe.

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 home page on the Internet at www.masco.com or you may contact us via e-mail at 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
Masco Corporation
21001 Van Born Road
Taylor, MI 48180-1340

ANNUAL MEETING OF SHAREHOLDERS

The 2008 Annual Meeting of Shareholders of Masco Corporation will be held at the executive offices of the Company on May 13, 2008 at 10:00 a.m., E.D.T.

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.

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 to 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 358333
Pittsburgh, PA 15252-8333

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, 27th Floor
Jersey City, NJ 07310
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: shrrelations@mellon.com

MASCO

MASCO CORPORATION
21001 Van Born Road
Taylor, Michigan 48180
313 274 7400
www.masco.com

FSC
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
www.fsc.org Cert no. SW-COC-1530
© 1996 Forest Stewardship Council
10%

GA 000114

Tab 28

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, 2007 **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.
Zero Coupon Convertible Senior Notes Series B Due 2031	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 ☑ No ☐

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on June 29, 2007 (based on the closing sale price of $28.47 of the Registrant's Common Stock, as reported by the New York Stock Exchange on such date) was approximately $10,405,753,000.

Number of shares outstanding of the Registrant's Common Stock at January 31, 2008:

364,700,000 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 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

Masco Corporation
2007 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 emphasis on brand name consumer products and services holding leadership positions in their markets. The Company is among the largest manufacturers in North America of a number of home improvement and building products, including faucets, cabinets, architectural coatings and windows and is one of the largest installers of building products for the new home construction market. The Company generally provides broad product offerings in a variety of styles and price points and distributes products through multiple channels including home builders and wholesale and retail channels. Approximately 80 percent of the Company's 2007 sales were generated by North American operations. The balance of sales were made by our other operations, located principally in Belgium, China, Denmark, Germany, The Netherlands and the United Kingdom.

The Company's businesses operate in five segments arranged by similarity in products and services. The following table sets forth, for the three years ended December 31, 2007, the contribution of the Company's segments to net sales and operating profit. Additional financial information concerning the Company's operations by segment and by geographic regions, as well as general corporate expense, as of and for the three years ended December 31, 2007, is set forth in Note P to the Company's Consolidated Financial Statements included in Item 8 of this Report.

(In Millions)

	Net Sales (1)		
	2007	2006	2005
Cabinets and Related Products	$ 2,829	$ 3,286	$ 3,324
Plumbing Products	3,449	3,296	3,176
Installation and Other Services	2,615	3,158	3,063
Decorative Architectural Products	1,771	1,717	1,612
Other Specialty Products	1,106	1,261	1,325
Total	$11,770	$12,718	$12,500

	Operating Profit (1)(2)(3)(4)		
	2007	2006	2005
Cabinets and Related Products	$ 336	$ 122	$ 515
Plumbing Products	265	280	367
Installation and Other Services	176	344	382
Decorative Architectural Products	383	371	275
Other Specialty Products	(28)	225	229
Total	$ 1,132	$ 1,342	$ 1,768

(1) Amounts exclude discontinued operations.

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

(3) Operating profit is before income regarding the Behr litigation settlement of $1 million and $6 million in 2006 and 2005, respectively, pertaining to the Decorative Architectural Products segment.

(4) Operating profit includes impairment charges for goodwill and other intangible assets as follows: For 2007 – Plumbing Products – $69 million; and Other Specialty Products – $158 million. For 2006 – Cabinets and Related Products – $316 million; and Plumbing Products – $1 million. For 2005 – Plumbing Products – $7 million; and Other Specialty Products – $36 million.

GA 000117

Except as the context otherwise indicates, the terms "Masco" and the "Company" refer to Masco Corporation and its consolidated subsidiaries.

Cabinets and Related Products

In North America, the Company manufactures and sells economy, stock, semi-custom, assembled and ready-to-assemble cabinetry for kitchen, bath, storage, home office and home entertainment applications in a broad range of styles and price points. In Europe, the Company manufactures and sells assembled and ready-to-assemble kitchen, bath, storage, home office and home entertainment cabinetry. These products are sold under a number of trademarks including KRAFTMAID®, MILL'S PRIDE®, TVILUM- SCANBIRK™ and WOODGATE™ primarily to dealers and home centers, and under the names MERILLAT®, MOORES™ and QUALITY CABINETS® primarily to distributors and homebuilders for both the home improvement and new home construction markets. Cabinet sales are significantly affected by levels of activity in both new home construction and retail consumer spending, particularly spending for major home improvement products. A significant portion of our sales for the home improvement market are made through home center retailers.

The cabinet manufacturing industry in the United States and Europe is highly competitive, with several large competitors and numerous local and regional competitors. In addition to price, the Company believes that competition in this industry is based largely on product quality, responsiveness to customer needs and product features. Significant North American competitors include American Woodmark Corporation, Fortune Brands, Inc. and Cardell Cabinetry.

In 2007, the Company completed additions to its North American cabinet manufacturing capacity, which were undertaken in order to meet increased demand for cabinet products. The anticipated benefits of the new capacity have not been realized due to the decline in new home construction and consumer spending activity since 2006.

Plumbing Products

In North America, the Company sells a wide variety of faucet and showering devices that are manufactured by or for the Company. Products are sold under various brand names including DELTA®, PEERLESS®, HANSGROHE®, BRASSTECH®, BRIZO®, NEWPORT BRASS®, AXOR®, ALSONS® and PLUMB SHOP®. Products include single- and double-handle faucets, showerheads, handheld showers and valves, which are sold by manufacturers' representatives and Company sales personnel to major retail accounts and to distributors who sell these products to plumbers, building contractors, remodelers, smaller retailers and others. The Company sells kitchen and bath faucets, showering devices and various other plumbing products for European markets under the brand names HANSGROHE, BRISTAN™, AXOR and DAMIXA®, which are sold through multiple distribution channels.

Masco believes that its faucet operations are among the leaders in sales in the North American market, with American Standard, Kohler, Moen and Price Pfister as major brand competitors. The Company also has several major competitors among the European manufacturers, primarily in Germany and Italy, including Friedrich Grohe. The Company faces significant competition from private label products (including house brands sold by certain of the Company's customers). Many of the faucet and showering products with which the Company's products compete are manufactured in Asia. As part of the Company's strategy for the Plumbing Products segment, these businesses have been reducing the volume of products manufactured domestically and increasing their Asian manufacturing and sourcing of products.

Other plumbing products manufactured and sold by the Company include AQUA GLASS®, MIROLIN® and AMERICAN SHOWER & BATH™ acrylic and gelcoat bath and shower enclosure units, shower trays and laundry tubs, which are sold primarily to wholesale plumbing distributors and home center retailers for the North American home improvement and new home construction markets. The Company's spas are manufactured and sold under HOT SPRING®, CALDERA® and other trademarks directly to independent dealers. Major competitors include Kohler, Lasco, Maax and Jacuzzi. HÜPPE® and BREUER™ shower enclosures are sold by the Company through wholesale channels and home

GA 000118

centers primarily in Germany and western Europe. HERITAGE™ ceramic and acrylic bath fixtures and faucets are principally sold in the United Kingdom directly to selected retailers. GLASS™ and PHARO™ acrylic bathtubs and steam shower enclosures are also sold in Europe.

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" market under the MASTER PLUMBER® and PLUMB SHOP trademarks and are also sold under private label.

In addition to price, the Company believes that competition in its Plumbing Products markets is based largely on brand reputation, product quality, product features, and breadth of product offering.

A substantial portion of the Company's plumbing products are made from brass, the major components of which are copper and zinc. From time to time, the Company has encountered volatility in the price of brass. In addition, legislation enacted in California to become effective in January 2010 mandates new standards for acceptable lead content in plumbing products sold in California. Similar legislation is being considered by other states. Faucet manufacturers, including the Company, will be required to obtain adequate supplies of lead-free brass or suitable alternative materials for continued production of faucets. An increase in the demand for lead-free brass may cause a shortage of supply and resulting price increases and could adversely impact this segment's operating results.

Installation and Other Services

The Company's Installation and Other Services segment sells installed building products and distributes building products primarily to the new home construction industry, and to a lesser extent, the commercial construction market, throughout the United States. Historically, the Company concentrated on the installation and distribution of insulation, which comprised approximately 12 percent, 15 percent and 15 percent of the Company's consolidated net sales for the years ended December 31, 2007, 2006 and 2005, respectively. Net sales of non-insulation products (both installed and distributed) in 2007 represented approximately 46 percent of the segment's net sales. Our offering of installed building products includes insulation, cabinetry, gutters, fireplaces, garage doors and framing components. Distributed products include insulation, insulation accessories, gutters, roofing, cabinetry and fireplaces. Collaboration with other Company businesses has resulted in sales of installed Company products, such as cabinetry, windows, paint and bath accessories. Installed building products are sold primarily to custom and production homebuilders by the Company's network of branch locations throughout most of the United States. Distributed products are sold primarily to contractors and dealers from distribution centers in various parts of the United States. As discussed under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," sales and operating results for the Installation and Other Services segment are significantly affected by the level of new home construction activity.

In addition to price, the Company believes that competition in this industry is based largely on customer service, range of products and services offered, and quality of installation service. The Company believes it is the largest national provider of installed insulation in the United States. Competitors include several regional contractors, as well as numerous local contractors and lumber yards.

The Company buys insulation from a limited number of large suppliers in the United States market. Historically, during periods of rapid growth in the new home construction market, the industry has encountered shortages of insulation, leading to price volatility and allocations of supply. As one of the country's largest purchasers of insulation, the Company has been able to successfully meet its needs in the past, although the volatility of material costs does impact our financial performance.

GA 000119

The Installation and Other Services segment is a labor-intensive business. Significant changes in federal, state and local regulations addressing immigration and wages, as well as collective bargaining arrangements affecting wages and working conditions, could adversely affect the financial performance of the Company's business.

Decorative Architectural Products

The Company manufactures architectural coatings including paints, specialty paint products, stains, varnishes and waterproofing products. The products are sold in the United States and Canada under the brand names BEHR®, KILZ® and EXPRESSIONS® to the "do-it-yourself" and professional markets through home centers, paint stores and other retailers. BEHR products were also recently introduced in China. The KILZ brand is sold in North America through home center retailers and discount retailers, and through hardware stores, paint stores and dealers. Net sales of architectural coatings comprised approximately 13 percent, 11 percent and 11 percent of the Company's consolidated net sales for the years ended December 31, 2007, 2006 and 2005, respectively. 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, the Company believes that competition in this industry is based largely on product quality, technology and product innovation, customer service and brand reputation.

The BEHR brand is sold through The Home Depot, the segment's and the Company's largest customer. The paint departments at The Home Depot stores include the Behr color center and computer kiosk with the COLOR SMART BY BEHR® computerized color-matching system that enables consumers to select and coordinate their paint-color selection. The loss of The Home Depot as a customer would significantly impact the segment's business and that of the Company as a whole.

Titanium dioxide is a major ingredient in the manufacture of paint. Shortages of supply and cost increases for titanium dioxide in the past have resulted from surges in global demand and from disruption of refining capacity (i.e., Hurricane Katrina in the fall of 2005). Similar events in the future could adversely impact the financial performance of the Company's business. Petroleum products are also used in the manufacture of architectural coatings. Significant increases in the cost of crude oil lead to higher raw material costs (i.e., for resins, solvents, packaging), which can adversely affect the segment's results of operations.

The Decorative Architectural Products segment also includes LIBERTY® door, window and other hardware, which is manufactured for the Company and sold to home centers, other retailers, original equipment manufacturers and wholesale markets. Key competitors in North America include Amerock, Belwith, Umbra and Stanley. Decorative bath hardware and shower accessories are sold under the brand names FRANKLIN BRASS® and DECOR BATHWARE® to distributors, home center retailers and other retailers. Competitors include Moen and Globe Union.

Other Specialty Products

The Company manufactures and sells vinyl, fiberglass and aluminum windows and doors under the MILGARD WINDOWS® brand name to the new home construction and home improvement markets, principally in the western United States. MILGARD WINDOWS products are sold primarily through dealers and, to a lesser extent, direct to production homebuilders and through lumberyards and home center retailers. The segment's competitors in North America include national brands, such as Jeld-Wen, Simonton, Pella and Andersen, and numerous regional brands. In the United Kingdom, the Company manufactures and sells windows, related products and components under several brand names including GRIFFIN™, CAMBRIAN™, PREMIER™ and DURAFLEX™. Sales are primarily through dealers and wholesalers to the repair and remodeling markets. United Kingdom competitors include many small and mid-sized firms and a few large, vertically integrated competitors. In addition to price, the Company believes that competition in this industry is based largely on customer service and product quality.

GA 000120

The Company manufactures and sells a complete line of manual and electric staple gun tackers, staples and other fastening tools under the brand names ARROW® and POWERSHOT®. These products are sold through various distribution channels including home center and other retailers and wholesalers. The principal North American competitor in this product line is Stanley.

The Company also manufactures residential hydronic radiators and heat convectors under the brand names BRUGMAN®, SUPERIA™, THERMIC™ and VASCO®, which are sold to the European wholesale market and to retail home centers from operations in Belgium, The Netherlands and Poland.

Additional Information

- The Company holds United States and foreign patents, patent applications, licenses, trademarks and trade names. As a manufacturer and distributor of brand name products, we view our trademarks and other proprietary 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.
- All of the Company's 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 remodeling.
- Compliance with federal, state and local regulations relating to the discharge of materials into the environment, or otherwise relating to the protection of the environment, is not expected to result in material capital expenditures by the Company or to have a material adverse effect on the Company's earning or competitive position.
- The Company does not consider backlog orders to be material.
- At December 31, 2007, the Company employed approximately 52,000 people. Satisfactory relations have generally prevailed between the Company and its employees.

Available Information

The Company's website is www.masco.com. The Company's 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 its website. The Company will continue to post its periodic reports on Form 10-K and Form 10-Q and its current reports on Form 8-K and any amendments to those documents to its website as soon as reasonably practicable after those reports are filed with or furnished to the Securities and Exchange Commission. Material contained on the Company's website is not incorporated by reference into this Report on Form 10-K.

Item 1A. Risk Factors.

There are a number of business risks and uncertainties that may affect our Company. These risks and uncertainties could cause future results to differ from past performance or expected results, including results described in statements elsewhere in this Report that constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. The impact on our Company of certain of these risk factors is discussed below under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial, also may adversely impact our Company. Should any risks or uncertainties develop into actual events, these developments could have material adverse effects on our business, financial condition and results of operations. These risks and uncertainties include, but are not limited to, the following, which we consider to be most relevant to our specific business activities.

GA 000121

A significant portion of our business relies on residential construction activity and general economic conditions.

A significant part of our business is affected by levels of home improvement (including repair and remodeling) and new home construction activity, principally in North America and Europe. Demographic factors, such as changes in population growth and household formations, affect levels of home improvement and new home construction over the long term. Significant factors that impact demand for home improvement and new home construction in the short term include the inventory levels of unsold new and existing homes, general and regional economic conditions, consumer confidence and credit, terms and availability of financing, affordability of homes, interest rates, energy costs, and, on a more localized basis, weather conditions and natural disasters. The new home construction market, in particular, is cyclical in nature. A discussion of the impact of the decline in new home construction and in consumer spending for home improvement items on our various segments and on the Company's operating results is located under "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 of this Report.

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. Larger customers can effect significant changes in their volume of purchases and can otherwise significantly affect the terms and conditions on which we do business. Further, during downturns in our markets, declines in the financial condition and creditworthiness of significant customers may impact the volume of our business, the credit risk involved and our terms of doing business with them. Sales of our home improvement and building products to home center retailers are substantial. In 2007, sales to the Company's largest customer, The Home Depot, were $2.4 billion (approximately 20 percent of the Company's consolidated net sales). Although builders, dealers and other retailers represent other channels of distribution for the Company's products and services, the loss of a substantial portion of our sales to The Home Depot would have a material adverse impact on the Company.

As some of our customers expand their markets and their targeted customers, conflicts occur and in some instances we may also become their competitor. Increasingly, we are transacting business directly with our larger customers. These arrangements may undermine the business relationships we have with customers who purchase our products through traditional wholesale means. In addition, our large retail customers are increasingly requesting product exclusivity, which may impact our product offerings to other customers.

Our principal markets are becoming more competitive.

The major geographic markets for our products and services are highly competitive and, in recent years, competition has intensified significantly. Competition is further exacerbated during economic downturns. Home center retailers are increasing their purchases of products directly from manufacturers, particularly low-cost suppliers in Asia, for sale as private label and house brand merchandise. Also, home center retailers, which have historically concentrated their sales efforts on retail consumers and remodelers, are increasingly turning their marketing efforts directly toward professional contractors and installers. The Company believes that competition in our industries is based largely on price, product and service quality, brand reputation, customer service and product features. Although the relative importance of such factors varies among customers and product categories, price is often a primary factor.

Although we view the long term demographic trends for our markets as generally favorable, our markets are mature, cyclical and growing slowly. Additionally, our market position in and the competitive composition of our traditional markets affect our ability to expand our market share. In recent years, we have directed our strategic focus to organic growth and on developing new products and

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expanding our services, rather than on growth through acquisitions. However, our ability to maintain our competitive positions in our markets and to grow our businesses is challenged since it depends to a large extent upon successfully maintaining our relationships with major customers, implementing growth strategies in our existing markets and entering new geographic markets, capitalizing on and strengthening our brand names, managing our cost structure, accommodating shorter life-cycles for our products and identifying and effectively responding to changing consumer preferences and spending patterns through product development and innovation.

The importance of sophisticated information technology to our industry is increasing. In order to remain competitive and respond to customer requirements and changes in their business processes, such as inventory replenishment, merchandise ordering, transportation and payment processing, the Company must be able to identify and implement comprehensive enterprise resource planning ("ERP") systems. ERP systems are also critical to our supply chain management and logistics capabilities. The successful implementation of ERP systems also requires significant investment by the Company of both time and capital. Difficulties encountered in the deployment of significant new systems and other technology could be disruptive to the operation of our businesses.

The cost and availability of materials and labor and the performance of our supply chain affect our operating results.

When we incur cost increases for commodities or materials that are major components of our products or services, such as brass, insulation or titanium dioxide, it can be difficult for us to offset the impact on our operating results on a timely basis. Delays in adjusting or inability to adjust prices may be due to such factors as our existing arrangements with customers, competitive considerations, or customer resistance to such price increases. When the number of available sources for raw materials is limited, price volatility is more likely to occur and with longer duration when demand exceeds supply. In addition to their impact on our production expenses, increased costs of energy and other commodities, such as crude oil, can significantly affect the cost to transport our products and adversely affect our results of operations. See "Installation and Other Services" for a discussion of the impact of cost of raw materials and availability of labor and materials on that segment of our business.

We may also be adversely affected if our homebuilder customers encounter difficulty or delays in obtaining required materials from their other suppliers or if they encounter labor shortages. This is particularly likely to occur during periods of rapid growth in the new home construction market. Under such circumstances, homebuilders may delay their construction schedules and, as a result, may reduce or delay their purchase of products and services from us.

We rely heavily or exclusively on outside suppliers for certain of our products or key components. If there is an interruption in these sources of supply, we may experience difficulty or delay in substituting alternatives and our business may be disrupted.

International political, economic and social developments impact our business.

Over 20 percent of our sales are derived outside of North America (principally in Europe) and are transacted in currencies other than U.S. dollars (principally European euros and Great Britain pounds). Our international business faces risks associated with changes in political, monetary, economic and social environments, local labor conditions and practices, the laws, regulations and policies of foreign governments, cultural differences and differences in enforcement of contract and intellectual property rights. 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. U.S. laws affecting activities of U.S. companies doing business abroad, including tax laws and laws regulating various business practices, also impact our international business. Our international operating results may be influenced, when compared to our North American results, in part due to relative economic conditions in the European markets and due to competitive pricing pressures on certain products.

GA 000123

Increasingly, we are manufacturing in Asia and sourcing 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.

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

We have maintained investments in available-for-sale securities (including marketable and auction rate securities) and a number of 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. In addition, we have commitments that require us to contribute additional capital to these private equity funds upon receipt of a capital call from the private equity fund.

Product liability claims and other litigation could be costly.

Increasingly, homebuilders, including our customers, are subject to construction defect and home warranty claims in the ordinary course of their business. Our contractual arrangements with these customers typically include the agreement to indemnify them against liability for the performance of our products or services or the performance of other products that we install. These claims frequently result in lawsuits against the homebuilders and many of their subcontractors, including the Company, and require defense costs even when such products or services are not the principal basis for the claims.

We are also subject to product safety regulations, recalls and direct claims for product liability, including putative class actions. Product liability claims can result in significant liability and, regardless of the ultimate outcome, can be costly to defend. Also, we increasingly rely on other manufacturers to provide us with products or components for products that we sell. Because of 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.

The Company has experienced an increase in the number of putative class action lawsuits in recent years predicated upon claims for antitrust violations, product liability, wage and hour issues and other matters. The Company has generally denied liability and vigorously defends these cases. However, even when there is no basis for imposing liability on the Company, such lawsuits are particularly costly to resolve due to their scope, complexity and the potentially significant exposure that is alleged.

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

Government and industry responses to environmental and health and safety concerns could impact our capital expenditures and operating results.

Government and other regulations pertaining to health and safety (including protection of employees as well as consumers) and environmental concerns continue to emerge, domestically as well as internationally. In addition to having to comply with current requirements (including requirements that do not become effective until a future date), even more stringent requirements could be imposed on our industries in the future. Compliance with these regulations (such as the restrictions on lead content in plumbing products and on volatile organic compounds and formaldehyde emissions that are applicable to certain of our businesses), may require us to alter our manufacturing and installation processes and our sourcing. Such actions could adversely impact our operating results, and our ability to effectively and timely meet such regulations could adversely impact our competitive position.

GA 000124

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

To be successful, we must attract, develop and retain highly qualified and talented personnel in management, sales, marketing, research and development and, as we enter new international markets, skilled personnel familiar with these markets. We compete with multinational firms in manufacturing and other industries for these employees and we invest significant resources in recruiting, developing and motivating them. The failure to attract, motivate, develop and retain key managers and other key employees could negatively affect our competitive position and our operating results.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The table below lists the Company's principal North American properties for segments other than Installation and Other Services.

Business Segment	Manufacturing	Warehouse and Distribution
Cabinets and Related Products	19	23
Plumbing Products	24	9
Decorative Architectural Products	10	11
Other Specialty Products	15	6
Totals	68	49

Most of the Company's North American manufacturing facilities range in size from single buildings of approximately 10,000 square feet to complexes that exceed 1,000,000 square feet. The Company owns most of its North American manufacturing facilities, none of which are subject to significant encumbrances. A substantial number of our warehouse and distribution facilities are leased.

In addition, the Company's Installation and Other Services segment operates over 230 local installation branch locations and over 60 local distribution centers in the United States, most of which are leased.

The table below lists the Company's principal properties outside of North America.

Business Segment	Manufacturing	Warehouse and Distribution
Cabinets and Related Products	13	15
Plumbing Products	25	29
Decorative Architectural Products	1	2
Other Specialty Products	12	3
Totals	51	49

Most of these international facilities are located in Belgium, China, Denmark, Germany, The Netherlands and the United Kingdom. The Company generally owns its international manufacturing facilities, none of which are subject to significant encumbrances, and leases its warehouse and distribution facilities.

The Company's corporate headquarters are located in Taylor, Michigan and are owned by the Company. The Company owns an additional building near its corporate headquarters that is used by our corporate research and development department.

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Each of the Company's operating divisions assesses the manufacturing, distribution and other facilities needed to meet its operating requirements. The Company's buildings, machinery and equipment have been generally well maintained and are in good operating condition. In general, the Company's facilities have sufficient capacity and are adequate for its production and distribution requirements.

Item 3. Legal Proceedings.

Information regarding legal proceedings involving the Company is set forth in Note T to the Company's consolidated financial statements included in Item 8 of this Report.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Supplementary Item. Executive Officers of the Registrant (Pursuant to Instruction 3 to Item 401(b) of Regulation S-K).

Name	Position	Age	Executive Officer Since
Richard A. Manoogian	Executive Chairman	71	1962
Timothy Wadhams	President and Chief Executive Officer	59	2001
Donald J. DeMarie	Executive Vice President and Chief Operating Officer	44	2007
Eugene A. Gargaro, Jr.	Vice President and Secretary	65	1993
John R. Leekley	Senior Vice President and General Counsel	64	1979
John G. Sznewajs.....	Vice President, Treasurer and Chief Financial Officer	40	2005

Executive officers are elected annually by the Board of Directors. Each of the above executive officers has been employed in a managerial capacity with the Company for at least five years. Mr. DeMarie was elected Executive Vice President in July 2007 and became Chief Operating Officer in December 2007. He had previously served as Group President of the Company's Installation and Other Services segment since 2003. Previously, he had served as President and Chief Executive Officer of Masco Contractor Services and in other managerial roles since 1995. Mr. Sznewajs was elected to his current position in July 2007. He had previously served as Vice President and Treasurer since 2005 and Vice President – Business Development since 2003 and before that time served in various capacities in the Business Development Department from 1996 to 2003.

GA 000126

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

Quarter	Market Price High	Market Price Low	Dividends Declared
2007			
Fourth	$25.28	$20.89	$.23
Third	29.00	22.65	.23
Second	31.58	26.26	.23
First	34.72	27.00	.23
Total			$.92
2006			
Fourth	$30.53	$26.85	$.22
Third	29.90	25.85	.22
Second	33.70	27.63	.22
First	32.95	29.00	.22
Total			$.88

On February 15, 2008 there were approximately 5,500 holders of record of the Company's common stock.

The Company expects that its practice of paying quarterly dividends on its common stock will continue, although the payment of future dividends is at the discretion of the Company's Board of Directors and will depend upon the Company's earnings, capital requirements, financial condition and other factors.

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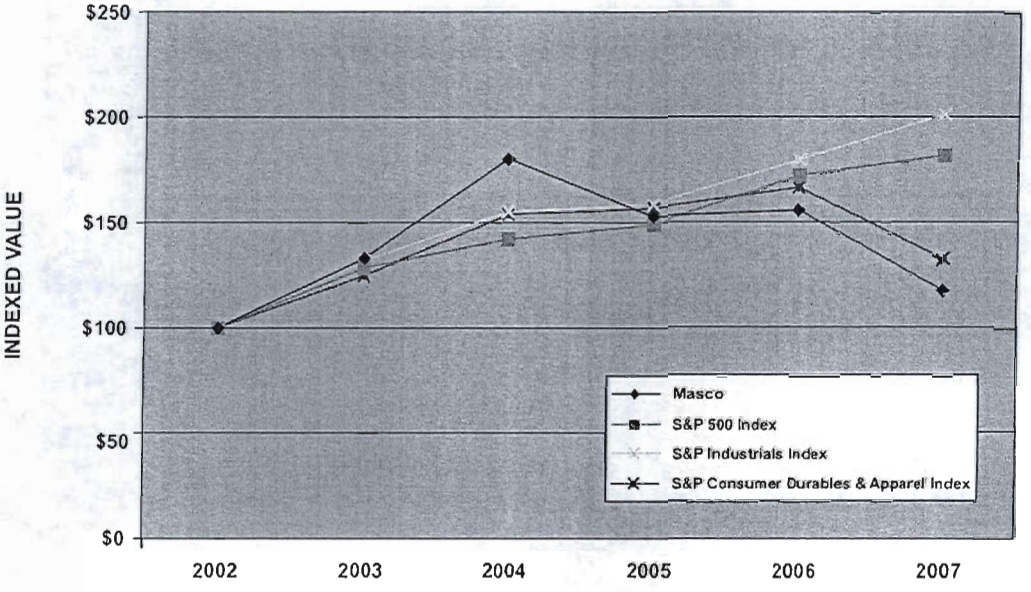
Performance Graph

The table below sets forth a line graph comparing the cumulative total shareholder return on Masco's common stock with the cumulative total return of (i) the Standard & Poor's 500 Composite Stock Index ("S&P 500"), (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, 2002 through December 31, 2007, when the closing price of Masco's common stock was $21.61. The graph assumes investments of $100 on December 31, 2002 in Masco common stock and in each of these three indices and the reinvestment of dividends.



The table below sets forth the value, as of December 31 for each of the years indicated, of a $100 investment made on December 31, 2002 in each of Masco common stock, the S&P 500 Index, the S&P Industrials Index and the S&P Consumer Durables & Apparel Index and the reinvestment of dividends.

	2002	2003	2004	2005	2006	2007
Masco	$100.00	$132.97	$180.41	$152.95	$155.69	$117.38
S&P 500 Index	$100.00	$128.36	$142.14	$149.01	$172.27	$181.72
S&P Industrials Index	$100.00	$131.79	$155.28	$158.77	$179.65	$201.19
S&P Consumer Durables & Apparel Index	$100.00	$124.66	$154.04	$156.87	$166.53	$132.55

The following table provides information regarding the Company's purchase of Company common stock for the three months ended December 31, 2007, in millions except average price paid per common share data:

Period	Total Number of Shares Purchased	Average Price Paid Per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
10/01/07 – 10/31/07 . . .	1	$22.92	1	42
11/01/07 – 11/30/07 . . .	1	$22.21	1	41
12/01/07 – 12/31/07 . . .	—	—	—	41
Total for the quarter . . .	2	$22.31	2	

In July 2007, the Company's Board of Directors authorized the purchase of up to 50 million shares of the Company's common stock in open-market transactions or otherwise, replacing the May 2006 authorization.

On October 17, 2007 the Company redeemed the outstanding balance of its Zero Coupon Convertible Senior Notes due 2031 ("Old Notes") for cash of $85,000. This redemption retired the balance of a $1.9 billion series originally issued in 2001 that was exchanged in December 2004 for the Company's Zero Coupon Convertible Senior Notes Series B due July 2031 ("New Notes"). See Note K to the consolidated financial statements included in Item 8 of this Report for additional information about the Old Notes and the New Notes.

For information regarding securities authorized for issuance under the Company's equity compensation plans, see Part III, Item 12 of this Report.

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Item 6. Selected Financial Data.

	(Dollars In Millions, Except Per Common Share Data)				
	2007	2006	2005	2004	2003
Net sales (1)	$11,770	$12,718	$12,500	$11,713	$10,251
Operating profit (1),(2),(3),(4),(5),(6)	$ 959	$ 1,140	$ 1,590	$ 1,651	$ 1,504
Income from continuing operations (1),(2),(3),(4),(5),(6)	$ 397	$ 478	$ 889	$ 1,015	$ 810
Per share of common stock:					
Income from continuing operations:					
Basic	$ 1.08	$ 1.21	$ 2.11	$ 2.28	$ 1.69
Diluted	$ 1.06	$ 1.20	$ 2.07	$ 2.23	$ 1.65
Dividends declared	$ .92	$ 0.88	$ 0.80	$ 0.68	$ 0.60
Dividends paid	$ .91	$ 0.86	$ 0.78	$ 0.66	$ 0.58
Income from continuing operations as a % of:					
Net sales	3%	4%	7%	9%	8%
Shareholders' equity (7)	9%	10%	16%	19%	15%
At December 31:					
Total assets	$10,907	$12,325	$12,559	$12,541	$12,173
Long-term debt	$ 3,966	$ 3,533	$ 3,915	$ 4,187	$ 3,848
Shareholders' equity	$ 4,025	$ 4,471	$ 4,848	$ 5,423	$ 5,456

(1) Amounts exclude discontinued operations.

(2) The year 2007 includes non-cash impairment charges for goodwill and other intangible assets aggregating $208 million after tax ($227 million pre-tax).

(3) The year 2006 includes non-cash impairment charges for goodwill aggregating $317 million after tax ($317 million pre-tax) and income of $1 million after tax ($1 million pre-tax) regarding the Behr litigation settlement.

(4) The year 2005 includes non-cash impairment charges for goodwill aggregating $43 million after tax ($43 million pre-tax) and income of $4 million after tax ($6 million pre-tax) regarding the Behr litigation settlement.

(5) The year 2004 includes non-cash impairment charges for goodwill aggregating $42 million after tax ($50 million pre-tax) and income of $19 million after tax ($30 million pre-tax) regarding the Behr litigation settlement.

(6) The year 2003 includes non-cash impairment charges for goodwill aggregating $42 million after tax ($48 million pre-tax) and income of $45 million after tax ($72 million pre-tax) regarding the Behr litigation settlement.

(7) Based on shareholders' equity as of the beginning of the year.

GA 000130

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

The financial and business analysis below provides information which the Company believes is relevant to an assessment and understanding of its 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 the Company's views about its future performance and constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These views involve risks and uncertainties that are difficult to predict and, accordingly, the Company's actual results may differ materially from the results discussed in such forward-looking statements. Readers should consider that various factors, including those discussed in Item 1A "Risk Factors" of this Report, the "Executive Level Overview," "Critical Accounting Policies and Estimates" and "Outlook for the Company" sections, may affect the Company's performance. The Company undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise.

Executive Level Overview

The Company manufactures, distributes and installs home improvement and building products. These products are sold to the home improvement and new home construction markets through mass merchandisers, hardware stores, home centers, builders, distributors and other outlets for consumers and contractors.

Factors that affect the Company's results of operations include the levels of new home construction and home improvement activity principally in North America and Europe, the importance of and the Company's relationships with key customers (including The Home Depot, which represented approximately 20 percent of the Company's net sales in 2007), the Company's ability to maintain its leadership positions in its U.S. and global markets in the face of increasing competition, the Company's ability to effectively manage its overall cost structure, and the cost and availability of labor and materials. The Company's international business faces political, monetary, economic and other risks that vary from country to country, as well as fluctuations in currency exchange rates. Further, the Company has financial commitments and investments in financial assets that are not readily marketable and that involve financial risk. In addition, product liability claims and other litigation could be costly. These and other factors are discussed in more detail in Item 1A "Risk Factors" of this Report.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company 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. The Company regularly reviews its estimates and assumptions, which are based upon historical experience, as well as current economic conditions and various other factors that are believed 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.

The Company believes that the following critical accounting policies are affected by significant judgments and estimates used in the preparation of its consolidated financial statements.

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Revenue Recognition and Receivables

The Company recognizes revenue as title to products and risk of loss is transferred to customers or when services are rendered. The Company records revenue for unbilled services performed based upon estimates of labor incurred in the Installation and Other Services segment; such amounts are recorded in Receivables. The Company records estimated reductions to revenue for customer programs and incentive offerings, including special pricing and co-operative advertising arrangements, promotions and other volume-based incentives. Allowances for doubtful accounts receivable are maintained for estimated losses resulting from the inability of customers to make required payments.

Inventories

Inventories are recorded 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, the Company monitors these estimates and records adjustments for differences between estimates and actual experience. Historically, actual results have not significantly deviated from those determined using these estimates.

Financial Investments

The Company has maintained investments in available-for-sale and marketable securities and a number of private equity funds, which aggregated $114 million and $173 million, respectively, at December 31, 2007. Investments in available-for-sale and marketable securities are recorded at fair value, and unrealized gains or losses (that are deemed to be temporary) are recognized, net of tax, through shareholders' equity, as a component of other comprehensive income in the Company's consolidated balance sheet. The Company records an impairment charge to earnings when an investment has experienced a decline in value that is deemed to be other-than-temporary. During 2007, the Company recognized non-cash, pre-tax impairment charges of $6 million related to its investment in Furniture Brands International common stock and $3 million related to its investment in Asahi Tec common stock.

From time to time, the Company invests its excess cash in short-term financial instruments including auction rate securities. Auction rate securities are investment securities that have interest rates which are reset every 7, 28 or 35 days. During the third quarter of 2007, the Company revised the classification of investments in auction rate securities from cash and cash investments to available-for-sale securities included in other assets on the consolidated balance sheet. The Company has also made corresponding adjustments to the consolidated statements of cash flows for the periods ended December 31, 2007, 2006 and 2005, to reflect the gross cash purchases and sales of these securities in cash flows (for) from investing activities. These changes in classification do not affect previously reported consolidated statements of income or cash flows from operating activities in any prior period. During 2007, the Company recognized a non-cash, pre-tax impairment charge of $3 million related to auction rate securities.

On January 11, 2007, the acquisition of Metaldyne Corporation ("Metaldyne") (formerly MascoTech, Inc.) by Asahi Tec Corporation ("Asahi Tec"), a Japanese automotive supplier, was finalized. The combined fair value of the Asahi Tec common and preferred stock, as well as the derivative related to the conversion feature on the preferred stock, received in exchange for the Company's investment in Metaldyne, was $72 million. As a result of the transaction, the Company recognized a gain of $14 million, net of transaction fees, included in the Company's consolidated statement of income for the year ended December 31, 2007, in income from other investments, net. Subsequent to the transaction, the Company's investment in Asahi Tec common and preferred stock is accounted for as available-for-sale and unrealized gains or losses related to the change in fair value of the Asahi Tec common and preferred stock at December 31, 2007 have been recognized, net of tax, through shareholders' equity, as a component of other comprehensive income in the Company's consolidated balance sheet. For the year ended December 31, 2007, the unrealized loss of $17 million related to the change in fair value of the derivative

related to the conversion feature on the preferred stock, has been included in income from other investments, net.

In addition, immediately prior to its sale, Metaldyne distributed shares of TriMas Corporation ("TriMas") common stock as a dividend to the holders of Metaldyne common stock; the Company recognized income of $4 million included in the Company's consolidated statement of income, in dividend income from other investments. In May 2007, TriMas made an initial public offering; subsequent to the offering, the Company's investment in TriMas is accounted for as available-for-sale and unrealized gains or losses related to the change in fair value of the investment have been recognized, net of tax, through shareholders' equity, as a component of other comprehensive income in the Company's consolidated balance sheet.

The Company's investments in private equity funds and other private investments are carried at cost and are evaluated for potential 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. Impairment indicators the Company considers 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; and any bona fide offers to purchase the investment for less than the carrying value. 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. 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 and the amounts realized upon liquidation. During 2007, the Company recognized non-cash, pre-tax impairment charges of $10 million related to certain of its investments in private equity funds.

Goodwill and Other Intangible Assets

The Company records the excess of purchase cost over the fair value of net tangible assets of acquired companies as goodwill or other identifiable intangible assets. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," in the fourth quarter of each year, or as an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting business unit below its carrying amount, the Company completes the impairment testing of goodwill utilizing a discounted cash flow method.

Determining market values using a discounted cash flow method requires the Company to make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate discount rates. The Company's judgments are based upon historical experience, current market trends, consultations with external valuation specialists and other information. While the Company believes that the estimates and assumptions underlying the valuation methodology are reasonable, different estimates and assumptions could result in a different outcome. In estimating future cash flows, the Company relies 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. The Company generally develops these forecasts based upon, among other things, recent sales data for existing products, planned timing of new product launches, estimated housing starts and repair and remodeling estimates for existing homes.

In the fourth quarter of 2007, the Company estimated that future discounted cash flows projected for most of its reporting business units were greater than the carrying values. Any increases in estimated discounted cash flows would have no impact on the reported value of goodwill.

If the carrying amount of a reporting business unit exceeds its fair value, the Company measures the possible goodwill impairment based upon an allocation of the estimate of fair value of the reporting business unit to all of the underlying assets and liabilities of the reporting business unit, including any

previously unrecognized intangible assets. The excess of the fair value of a reporting business 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 business unit's recorded goodwill exceeds the implied fair value of goodwill.

In 2007, the Company recognized non-cash, pre-tax impairment charges for goodwill of $177 million ($177 million, after tax). The pre-tax impairment charges recorded in 2007 were as follows: Plumbing Products segment — $69 million related to a North American manufacturer of plumbing-related products; and Other Specialty Products segment — $108 million related to a European manufacturer of heating products.

The Company reviews its other indefinite-lived intangible assets for impairment annually or as events occur or circumstances change that indicate the assets may be impaired without regard to the reporting unit. The Company considers 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 2007, the Company recognized a non-cash, pre-tax impairment charge for other indefinite-lived intangible assets of $50 million ($31 million, after tax) in the Other Specialty Products segment related to the value of a registered trademark.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The Company evaluates 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

The Company's 2005 Long Term Stock Incentive Plan (the "2005 Plan") replaced the 1991 Long Term Stock Incentive Plan (the "1991 Plan") in May 2005 and provides for the issuance of stock-based incentives in various forms. At December 31, 2007, outstanding stock-based incentives were in the form of long-term stock awards, stock options, phantom stock awards and stock appreciation rights. Additionally, the Company's 1997 Non-Employee Directors Stock Plan (the "1997 Plan") provides for the payment of part of the compensation to non-employee Directors in Company common stock. The 1997 Plan expired in May 2007; subsequently, compensation to non-employee Directors in Company common stock will be made from the 2005 Plan.

The Company elected to begin recording expense for stock options granted or modified subsequent to January 1, 2003. Effective January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") using the Modified Prospective Application ("MPA") method. The MPA method requires the Company to recognize expense for unvested stock options that were awarded prior to January 1, 2003 through the remaining vesting periods. The MPA method did not require the restatement of prior-year information. In accordance with SFAS No. 123R, the Company utilized the shortcut method to determine the tax windfall pool associated with stock options as of the date of adoption.

Long-Term Stock Awards

Long-term stock awards are granted to key employees and non-employee Directors of the Company and do not cause net share dilution inasmuch as the Company continues the practice of repurchasing and retiring an equal number of shares on the open market. There was $175 million (9 million common shares) of total unrecognized compensation expense related to unvested stock awards at December 31, 2007, which was included as a reduction of common stock and retained earnings. Effective January 1, 2006, such expense is being recognized ratably over the shorter of the vesting period of the stock awards, typically 10 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. For stock awards granted prior to January 1, 2006, such expense is being recognized over the vesting period of the stock awards, typically

10 years, or for executive grantees that are, or will become, retirement-eligible during the vesting period, the expense is being recognized over five years, or immediately upon a grantee's retirement. Pre-tax compensation expense for the annual vesting of long-term stock awards was $52 million for 2007.

Stock Options

Stock options are granted to key employees and non-employee Directors of the Company. The exercise price equals the market price of the Company's 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 10 years after the grant date. The 2005 Plan does not permit the granting of restoration stock options, except for restoration options resulting from options granted under the 1991 Plan. Restoration stock options become exercisable six months from the date of grant.

The Company measures compensation expense for stock options using a Black-Scholes option pricing model. For stock options granted subsequent to January 1, 2006, such expense is being recognized ratably over the shorter of the vesting period of the stock options, typically five years, or the length of time until the grantee becomes retirement-eligible at age 65. The expense for unvested stock options at January 1, 2006 is based upon the grant date fair value of those options as calculated using a Black-Scholes option pricing model for pro forma disclosures under SFAS No. 123. For stock options granted prior to January 1, 2006, such expense is being recognized ratably over the vesting period of the stock options, typically five years. Pre-tax compensation expense for stock options was $49 million for 2007.

The fair value of stock options was estimated at the grant date using a Black-Scholes option pricing model with the following assumptions for 2007: risk-free interest rate – 4.74%, dividend yield – 3.0%, volatility factor – 31.8% and expected option life – 7 years. For SFAS No. 123R calculation purposes, the weighted average grant-date fair value of option shares, including restoration options, granted in 2007 was $8.92 per option share.

If the Company increased its 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 2007 would increase 48 percent. If the Company decreased its 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 2007 would decrease 59 percent.

Employee Retirement Plans

Accounting for defined-benefit pension plans involves estimating the cost of benefits to be provided in the future, based upon vested years of service, and attributing those costs over the time period each employee works. Pension costs and obligations of the Company are developed from actuarial valuations. Inherent in these valuations are key assumptions regarding inflation, expected return on plan assets, mortality rates, compensation increases and discount rates for obligations and expenses. The Company considers 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 the Company's consolidated financial statements in any given period.

In 2007, the Company increased its discount rate for obligations to an average of 6.25 percent from 5.50 percent. The discount rate for obligations was based upon the expected duration of each defined-benefit pension plan's liabilities matched to the December 31, 2007 Citigroup Pension Discount Curve. Such rates for the Company's defined-benefit pension plans ranged from 5.00 percent to 6.50 percent, with the most significant portion of the liabilities having a discount rate for obligations of 6.25 percent or higher. The assumed asset return was primarily 8.25 percent, reflecting the expected long-term return on plan assets.

The Company's net underfunded amount for its qualified defined-benefit pension plans, the difference between the projected benefit obligation and plan assets, decreased to $114 million at December 31, 2007 from $186 million at December 31, 2006, primarily due to asset returns and funding

contributions; in accordance with SFAS No. 158, the underfunded amount has been recognized on the Company's consolidated balance sheets at December 31, 2007 and 2006. Qualified domestic pension plan assets in 2007 had a net return of approximately seven percent compared to average returns of six percent for the largest 1,000 Plan Benchmark.

The Company's projected benefit obligation for its unfunded non-qualified defined-benefit pension plans was $138 million at December 31, 2007 compared with $144 million at December 31, 2006; in accordance with SFAS No. 158, the unfunded amount has been recognized on the Company's consolidated balance sheets at December 31, 2007 and 2006.

The Company expects pension expense for its qualified defined-benefit pension plans to be $13 million in 2008 compared with $17 million in 2007. If the Company assumed that the future return on plan assets was one-half percent lower than the assumed asset return, the 2008 pension expense would increase by $3 million. The Company expects pension expense for its non-qualified defined-benefit pension plans to decrease by $1 million in 2008 compared with 2007.

Income Taxes

The Company has considered potential sources of future foreign taxable income in assessing the need for establishing a valuation allowance against its deferred tax assets related to its foreign tax credit carryforward of $45 million at December 31, 2007. Should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, a valuation allowance would be recorded in the period such determination is made.

Historically, the Company established reserves for tax contingencies in accordance with SFAS 5, "Accounting for Contingencies," ("SFAS No. 5"). Under this standard, reserves for tax contingencies were established when it was probable that an additional tax may be owed and the amount can be reasonably estimated. In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109," ("FIN No. 48"). FIN No. 48 allows the recognition of only those income tax benefits that have a greater than 50 percent likelihood of being sustained upon examination by the taxing authorities. The adoption of FIN No. 48 was effective January 1, 2007.

FIN No. 48 establishes a lower threshold than SFAS No. 5 for recognizing reserves for income tax contingencies on uncertain tax positions (referred to by FIN No. 48 as "unrecognized tax benefits"). Therefore, the Company believes that there is a greater potential for volatility in its effective tax rate because this lower threshold allows changes in the income tax environment and the inherent complexities of income tax law in a substantial number of jurisdictions to affect our unrecognized tax benefits computation to a greater degree than with SFAS No. 5.

While the Company believes it has adequately provided for its uncertain tax positions, amounts asserted by taxing authorities could vary from our accrued liability for unrecognized tax benefits. 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

Certain of the Company's products and product finishes and services are covered by a warranty to be free from defects in material and workmanship for periods ranging from one year to the life of the product. At the time of sale, the Company accrues a warranty liability for estimated costs to provide products, parts or services to repair or replace products in satisfaction of warranty obligations. The Company's estimate of costs to service its warranty obligations is based upon historical experience and expectations of future conditions. To the extent that the Company experiences any changes in warranty claim activity or costs associated with servicing those claims, its warranty liability is adjusted accordingly.

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A significant portion of the Company's 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 the Company. The Company's revenue recognition policy takes into account this type of return when recognizing revenue, and deductions are recorded at the time of sale.

The Company is subject to lawsuits and pending or asserted claims with respect to matters generally arising in the ordinary course of business. Liabilities and costs associated with these matters require estimates and judgments based upon the professional knowledge and experience of management and its legal counsel. When estimates of the Company's exposure for lawsuits and pending or asserted claims meet the criteria for recognition under SFAS No. 5, amounts are recorded as charges to earnings. The ultimate resolution of any such exposure to the Company may differ due to subsequent developments. See Note T to the Company's consolidated financial statements for information regarding certain legal proceedings involving the Company.

Corporate Development Strategy

In past years, acquisitions have enabled the Company to build strong positions in the markets it serves and have increased the Company's importance to its customers. The Company's focus includes the rationalization of its business units, including consolidations, as well as pursuing synergies among the Company's business units. The Company expects to maintain a more balanced growth strategy with emphasis on organic growth, share repurchases and fewer acquisitions with increased emphasis on cash flow and return on invested capital. As part of its strategic planning, the Company continues to review all of its businesses to determine which businesses may not be core to the Company's long-term growth strategy.

During 2007, the Company completed the sale of a European business unit in the Decorative Architectural Products segment. In 2006, the Company completed the sale of a North American business unit in the Other Specialty Products segment. These dispositions were completed pursuant to the Company's determination that these business units were not core to the Company's long-term growth strategy. The Company recognized a net loss of $10 million in 2007, primarily related to the 2007 discontinued operation. The Company recognized a net gain of $50 million in 2006, primarily related to the 2006 discontinued operation.

During 2005, in separate transactions, the Company completed the sale of three business units in Europe, including two in the Cabinets and Related Products segment and one in the Other Specialty Products segment, as well as one business unit in North America in the Cabinets and Related Products segment. The Company recognized a net gain of $63 million in 2005, primarily related to the 2005 discontinued operations.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company accounted for the business units which were sold in 2007, 2006 and 2005, except as noted below, as discontinued operations. There were no businesses held for sale at December 31, 2007.

The sales, results of operations and the (losses) gains from the 2007, 2006 and 2005 discontinued operations were included in (loss) income from discontinued operations, net, in the consolidated statements of income.

During 2007 and 2006, the Company completed the sale of several small businesses, primarily in the Plumbing Products segment, the results of which were included in continuing operations through the dates of sale. The Company received cash proceeds of $10 million and $72 million, respectively, and recognized a pre-tax net (loss) gain of $(8) million and $1 million, respectively, for the years ended December 31, 2007 and 2006, included in other, net, in continuing operations, related to the 2007 and 2006 sales of business units.

During 2007, the Company acquired several relatively small installation service businesses (Installation and Other Services segment), as well as Erickson Construction Company and Guy Evans, Inc.

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(Installation and Other Services segment). Erickson Construction Company, headquartered in Arizona, provides pre-fabricated wall panels and millwork for residential builders in Arizona, California and Nevada. Guy Evans, Inc., headquartered in California, is an installer of millwork, doors, windows and bath hardware for residential builders in California and Nevada. These two acquisitions allow the Company to expand the products and services it offers to its installation customers, and had combined annual sales in 2006 of approximately $200 million. The results of these acquisitions are included in the consolidated financial statement from the respective dates of acquisition. The aggregate net purchase price for all of these acquisitions was $202 million and included cash of $195 million and assumed debt of $7 million.

During 2006 and 2005, the Company acquired several relatively small businesses (primarily in the Installation and Other Services segment). The results of these acquisitions are included in the consolidated financial statements from the respective dates of acquisition.

Liquidity and Capital Resources

Historically, the Company has largely funded its growth through cash provided by a combination of its operations, long-term bank debt and the issuance of notes in the financial markets, and by the issuance of Company common stock, including issuances for certain mergers and acquisitions.

Bank credit lines are maintained to ensure the availability of funds. At December 31, 2007, the Company had a $2.0 billion 5-Year Revolving Credit Agreement with a group of banks syndicated in the United States and internationally which expires in February 2011. This agreement allows for borrowings denominated in U.S. dollars or European euros with interest payable based upon various floating-rate options as selected by the Company. There were no amounts outstanding under the 5-year Revolving Credit Agreement at December 31, 2007.

The 5-Year Revolving Credit Agreement contains limitations on additional borrowings; at December 31, 2007, the Company had additional borrowing capacity, subject to availability, of up to $1.9 billion. The 5-Year Revolving Credit Agreement also contains a requirement for maintaining a certain level of net worth; at December 31, 2007, the Company's net worth exceeded such requirement by $895 million.

The Company had cash and cash investments of $922 million at December 31, 2007 principally as a result of strong cash flows from operations.

The Company has maintained investments in available-for-sale and marketable securities and a number of private equity funds, principally as part of its tax planning strategies, as any gains enhance the utilization of any current and future tax capital losses. The Company determined that the longer maturity of private equity funds would be advantageous to the Company and complement the Company's investment in more liquid available-for-sale and marketable securities to balance risk. Since the Company has significantly reduced tax capital losses in part by generating capital gains from investments and other sources, the Company has and will continue to reduce its investments in financial assets.

In 2007, the Company increased its quarterly common stock dividend five percent to $.23 per common share. This marks the 49th consecutive year in which dividends have been increased.

Maintaining high levels of liquidity and cash flow are among the Company's financial strategies. The Company's total debt as a percent of total capitalization decreased to 50 percent at December 31, 2007 from 53 percent at December 31, 2006. The decrease in the Company's debt to total capitalization percent is primarily due to the repurchase of the Zero Coupon Convertible Senior Notes in January 2007.

On January 20, 2007, holders of $1.8 billion (94 percent) principal amount at maturity of the Company's Zero Coupon Convertible Senior Notes ("Notes") required the Company to repurchase their Notes at a cash value of $825 million. At December 31, 2007, there were outstanding $108 million principal amount at maturity of such Notes, with an accreted value of $52 million, which has been

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included in long-term debt, as the next put option date is July 20, 2011. The Company may at any time redeem all or part of the Notes at their then accreted value.

During 2007, the Company also retired $300 million of floating-rate notes due March 9, 2007 and $300 million of 4.625% notes due August 15, 2007. On March 14, 2007, the Company issued $300 million of floating-rate notes due 2010; the interest rate is determined based upon the three-month LIBOR plus 30 basis points. On March 14, 2007, the Company also issued $300 million of fixed-rate 5.85% notes due 2017. These debt issuances provided net proceeds of $596 million and were in consideration of the March and August 2007 debt maturities.

The Company's working capital ratio was 2.0 to 1 and 1.5 to 1 at December 31, 2007 and 2006, respectively. The improvement in the Company's working capital ratio is primarily due to the January 2007 payment of $825 million to repurchase the Zero Coupon Convertible Senior Notes which were included in short-term notes payable at December 31, 2006.

The derivatives used by the Company during 2007 consist of interest rate swaps entered into in 2004, for the purpose of effectively converting a portion of fixed-rate debt to variable-rate debt. Generally, under interest rate swap agreements, the Company agrees with a counterparty to exchange the difference between fixed-rate and variable-rate interest amounts calculated by reference to an agreed notional principal amount. The derivative contracts are with two major creditworthy institutions, thereby minimizing the risk of credit loss. The interest rate swap agreements are designated as fair-value hedges, and the interest rate differential on interest rate swaps used to hedge existing debt is recognized as an adjustment to interest expense over the term of the agreement. For fair-value hedge transactions, changes in the fair value of the derivative and changes in the fair value of the item hedged are recognized in determining earnings.

The average variable interest rates are based upon the London Interbank Offered Rate ("LIBOR") plus fixed adjustment factors. The average effective rate for 2007 on the interest rate swaps was 6.264%. At December 31, 2007, the interest rate swap agreements covered a notional amount of $850 million of the Company's fixed-rate debt due July 15, 2012 with an interest rate of 5.875%. The hedges are considered 100 percent effective because all of the critical terms of the derivative financial instruments match those of the hedged item. Accordingly, no gain or loss on the value of the hedges was recognized in the Company's consolidated statements of income for the years ended December 31, 2007, 2006 and 2005. In 2007, the Company recognized an increase in interest expense of $3 million related to this swap agreement, due to increasing interest rates.

Certain of the Company's European operations also entered into foreign currency forward contracts for the purpose of managing exposure to currency fluctuations, primarily related to the European euro, the Great Britain pound and the U.S. dollar.

Cash Flows

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

	2007	2006	2005
Net cash from operating activities	$ 1,270	$1,208	$1,374
(Decrease) increase in debt, net	(881)	151	407
Proceeds from disposition of:			
Businesses, net of cash disposed	45	160	278
Property and equipment	45	16	37
Proceeds from financial investments, net	108	165	99
Issuance of Company common stock	60	28	33
Tax benefit from stock-based compensation	19	18	—
Acquisition of businesses, net of cash acquired	(203)	(28)	(25)
Capital expenditures	(248)	(388)	(282)
Cash dividends paid	(347)	(349)	(339)
Purchase of Company common stock	(857)	(854)	(986)
Effect of exchange rate on cash and cash investments	47	18	(5)
Other, net	(94)	(57)	(15)
Cash (decrease) increase	$(1,036)	$ 88	$ 576

The Company's cash and cash investments decreased $1.0 billion to $922 million at December 31, 2007, from $1,958 million at December 31, 2006.

Net cash provided by operations of $1.3 billion consisted primarily of net income adjusted for non-cash and certain other items, including depreciation and amortization expense of $248 million, net loss on disposition of businesses of $18 million, net gain on disposition of financial investments of $41 million, a $227 million charge for the impairment of goodwill and other intangible assets, a $22 million charge for the impairment of financial investments and other non-cash items, including stock-based compensation expense, amortization expense related to in-store displays and interest expense on the Zero Coupon Convertible Senior Notes, as well as a net decrease in working capital of $283 million.

The Company continues to emphasize balance sheet management, including working capital management and cash flow generation. Days sales in accounts receivable were 49 days at December 31, 2007 compared with 50 days at December 31, 2006, and days sales in inventories were 48 days at December 31, 2007 compared with 49 days at December 31, 2006. Accounts payable days improved to 43 days from 40 days at December 31, 2007 and 2006, respectively. Working capital (defined as accounts receivable and inventories less accounts payable) as a percent of sales was 15.4 percent and 16.1 percent at December 31, 2007 and 2006, respectively.

Net cash used for financing activities was $2.0 billion, and included cash outflows of $347 million for cash dividends paid, $1,425 million for the retirement of notes and $857 million for the acquisition and retirement of 31 million shares of Company common stock in open-market transactions. Cash provided by financing activities primarily included $596 million from the issuance of notes (net of issuance costs) and $60 million from the issuance of Company common stock, primarily from the exercise of stock options.

At December 31, 2007, the Company had remaining Board of Directors' authorization to repurchase up to an additional 41 million shares of its common stock in open-market transactions or otherwise. In January 2008, the Company repurchased an additional three million shares of Company common stock and expects to continue its share repurchase program throughout 2008.

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Net cash used for investing activities was $347 million, and included $248 million for capital expenditures and $203 million for acquisitions. Cash provided by investing activities included primarily $45 million of net proceeds from the disposition of businesses and $108 million from the net sale of financial investments.

The Company invests in automating its manufacturing operations to increase its productivity to improve customer service. Capital expenditures for 2007 were $248 million, compared with $388 million for 2006 and $282 million for 2005; for 2008, capital expenditures, excluding any potential 2008 acquisitions, are expected to approximate $240 million. Depreciation and amortization expense for 2007 totaled $248 million, compared with $244 million for 2006 and $241 million for 2005; for 2008, depreciation and amortization expense, excluding any potential 2008 acquisitions, is expected to approximate $260 million. Amortization expense totaled $20 million, $14 million and $28 million in 2007, 2006 and 2005, respectively.

Costs of environmental responsibilities and compliance with existing environmental laws and regulations have not had, nor, in the opinion of the Company, are they expected to have, a material effect on the Company's capital expenditures, financial position or results of operations.

The Company believes that its present cash balance and cash flows from operations are sufficient to fund its near-term working capital and other investment needs. The Company believes that its 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, future financial market activities and proceeds from asset sales.

Consolidated Results of Operations

The Company reports its financial results in accordance with generally accepted accounting principles ("GAAP") in the United States. However, the Company believes 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, the Company's reported results.

Sales and Operations

Net sales for 2007 were $11.8 billion, representing a decrease of seven percent from 2006. Excluding results from acquisitions and the effect of currency translation, net sales decreased 11 percent compared with 2006. 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	
	2007	2006
Net sales, as reported	$11,770	$12,718
– Acquisitions	(175)	—
Net sales, excluding acquisitions	11,595	12,718
– Currency translation	(207)	—
Net sales, excluding acquisitions and the effect of currency	$11,388	$12,718

Net sales for 2007 were adversely affected by a continued decline in the new home construction market, which reduced sales volume, and contributed to a nine percent decline in net sales. Economic conditions remain difficult in the new home construction market. Full-year housing starts have declined from 2.1 million in 2005 to 1.3 million in 2007. Net sales for 2007 were also negatively affected by a decline in consumer spending for home improvement products, which contributed to lower sales volume, reducing net sales by two percent compared to 2006. Retail sales volume benefited from increased sales volume of paints and stains and International plumbing products.

The Company's gross profit margins were 27.3 percent, 27.6 percent and 28.5 percent in 2007, 2006 and 2005, respectively. The decrease in the 2007 gross profit margin reflects lower sales volume of certain products, which more than offset the benefits associated with the Company's business rationalizations and other initiatives. The decrease in the 2006 gross profit margins reflects increased commodity, energy and freight costs, as well as a less favorable product mix, offset in part by increased selling prices for certain products.

Selling, general and administrative expenses as a percent of sales were 17.2 percent in 2007 compared with 16.1 percent in 2006 and 15.5 percent in 2005. Selling, general and administrative expenses in 2007 reflect lower sales volume, as well as increased advertising costs of 2.9 percent of sales compared to 2.6 percent of sales in 2006. The year 2007 also includes increased severance costs of $16 million, increased bad debt expense of $13 million and increased systems implementation costs of $7 million, which, on a combined basis, increased .3 percent of sales compared to 2006. Increased selling, general and administrative expenses in 2006, compared to 2005, reflect increased stock-based compensation expense of .8 percent of sales compared to .6 percent of sales in 2005, in part reflecting the adoption of SFAS No. 123R, and increased information systems implementation costs and other expenses.

Operating profit in 2007, 2006 and 2005 includes $79 million, $47 million and $12 million, respectively, of costs and charges related to the Company's business rationalizations and other initiatives. Operating profit in 2007, 2006 and 2005 includes $227 million, $317 million and $43 million, respectively, of impairment charges for goodwill and other intangible assets. Operating profit in 2006 and 2005 includes $1 million and $6 million, respectively, of income regarding the Behr litigation settlement. Operating profit margins, as reported, were 8.1 percent, 9.0 percent and 12.7 percent in 2007, 2006 and 2005, respectively. Operating profit margins, excluding the items above, were 10.7 percent, 11.8 percent and 13.1 percent in 2007, 2006 and 2005, respectively.

Operating profit margins in 2007 were adversely affected by a continuing decline in new home construction and a moderation in consumer spending in North America, both of which negatively impacted the sales volume of installation and other services, assembled cabinets and windows and doors; such sales volume declines negatively impacted operating profit margin by 1.6 percentage points compared to 2006. Operating profit margins benefited from the Company's business rationalizations and other initiatives. Operating profit margins in 2006 were negatively affected by an accelerating decline in the new home construction market and a moderation in consumer spending for certain "big ticket" home improvement items, such as cabinets, in the last half of 2006, both of which negatively impacted the sales volume of certain products and reduced operating profit margin by approximately one percent in 2006 compared to 2005. Operating profit margins in 2006 were also affected by the continuing negative impact of higher commodity costs partially offset by certain selling price increases. Operating profit margins in 2005 were impacted by increased commodity, energy and freight costs, which had only been partially offset by selling price increases.

Other Income (Expense), Net

During 2007, the Company recognized non-cash, pre-tax impairment charges aggregating $22 million related to financial investments in Furniture Brands International common stock ($6 million), Asahi Tec common stock ($3 million), auction rate securities ($3 million) and private equity funds ($10 million).

Other, net, for 2007 included $5 million of realized gains, net, from the sale of marketable securities, $6 million of dividend income and $38 million of income from other investments, net. Other, net, for 2007 also included $9 million of realized currency gains and other miscellaneous items.

During 2006, the Company recognized non-cash, pre-tax impairment charges aggregating $101 million for its investments related to Metaldyne ($40 million), TriMas ($16 million), the Heartland fund ($29 million) and other funds ($16 million).

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Other, net, for 2006 included $4 million of realized gains, net, from the sale of marketable securities, $10 million of dividend income and $30 million of income from other investments, net. Other, net, for 2006 also included realized currency gains of $14 million and other miscellaneous items.

During 2005, the Company recognized non-cash, pre-tax impairment charges aggregating $45 million primarily related to its investment in Furniture Brands International common stock ($30 million) and private equity funds ($15 million).

Other, net, for 2005 included $30 million of realized gains, net, from the sale of marketable securities, $16 million of dividend income and $69 million of income from other investments, net. Other, net, for 2005 also included realized currency losses of $25 million and other miscellaneous items.

Interest expense was $258 million, $240 million and $247 million in 2007, 2006 and 2005, respectively. The increase in interest expense in 2007 is primarily due to increasing interest rates and the issuance of higher interest rate debt of 6.125% notes in October 2006 and floating-rate notes and 5.85% notes in March 2007. These debt issuances were in consideration of the 2007 debt payments. The decrease in interest expense in 2006 is primarily the result of the repayment of $800 million of 6.75% notes in March 2006, partially offset by the issuance of $1 billion of 6.125% notes in October 2006, as well as the impact of increasing interest rates.

Income and Earnings Per Common Share from Continuing Operations

Income and diluted earnings per common share from continuing operations for 2007 were $397 million and $1.06 per common share, respectively. Income from continuing operations for 2007 included non-cash, pre-tax impairment charges for goodwill and other intangible assets of $227 million ($208 million or $.56 per common share, after tax). Income and diluted earnings per common share from continuing operations for 2006 were $478 million and $1.20 per common share, respectively. Income from continuing operations for 2006 included non-cash, pre-tax impairment charges for goodwill of $317 million ($317 million or $.79 per common share, after tax). Income and diluted earnings per common share from continuing operations for 2005 were $889 million and $2.07 per common share, respectively. Income from continuing operations for 2005 included non-cash, pre-tax impairment charges for goodwill of $43 million ($43 million or $.10 per common share, after tax) and income regarding the litigation settlement of $6 million pre-tax ($4 million or $.01 per common share, after tax).

The Company's effective tax rate for income from continuing operations was 44 percent, 45 percent, and 36 percent in 2007, 2006 and 2005, respectively. The increased tax rates in 2007 and 2006 are primarily due to the impairment charges for goodwill not being deductible for tax purposes. The Company's effective tax rate for income from continuing operations, excluding the impairment charges for goodwill and other intangible assets, was 36 percent, 33 percent and 35 percent in 2007, 2006 and 2005, respectively.

The Company estimates that its effective tax rate should approximate 42 to 43 percent in 2008. The expected tax rate for 2008 is higher than the statutory rate primarily due to the U.S. tax on anticipated dividend distributions from certain foreign subsidiaries whose earnings are taxed at rates less than the U.S. Federal rate of 35 percent. These dividends are being distributed to utilize certain favorable provisions of the U.S. income tax law that are scheduled to expire at December 31, 2008. The majority of the U.S. tax currently payable on these dividends will be offset by the Company's $45 million foreign tax credit carryforward; such utilization of the foreign tax credit carryforward will be accounted for as a reversal of the $45 million deferred tax asset.

Outlook for the Company

Economic conditions remain difficult in a number of the Company's markets. Housing starts declined 25 percent in 2007 due to excessive inventories of homes and less attractive mortgage terms. As a result, full-year 2007 housing starts declined to 1.3 million from 2.1 million in 2005 and the Company expects a further decline in housing starts in 2008. In addition, the Company anticipates a decline in consumer spending for home improvement products and, notwithstanding recent actions by the Federal Reserve and the government to stimulate economic growth, the Company believes that 2008 will be a difficult year for the overall U.S. economy. In the fourth quarter of 2007, the Company also experienced a softening of demand for certain of its International products due to declining European economies.

The Company expects market conditions in its industry, in the next several quarters, to be very challenging. The Company is confident of its strategy of dividend increases and share repurchases while concentrating on organic growth, improving returns and generating superior cash flow. The Company's strategy, together with the leveraging of the combined market strength of its retail service, distribution and installation capabilities, brands and scale, should allow Masco to continue to drive long-term growth and value for its shareholders.

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Business Segment and Geographic Area Results

The following table sets forth the Company's net sales and operating profit information by business segment and geographic area, dollars in millions.

	2007	2006	2005	Percent Change 2007 vs. 2006	Percent Change 2006 vs. 2005
Net Sales:					
Cabinets and Related Products	$ 2,829	$ 3,286	$ 3,324	(14)%	(1)%
Plumbing Products	3,449	3,296	3,176	5%	4%
Installation and Other Services	2,615	3,158	3,063	(17)%	3%
Decorative Architectural Products	1,771	1,717	1,612	3%	7%
Other Specialty Products	1,106	1,261	1,325	(12)%	(5)%
Total	$11,770	$12,718	$12,500	(7)%	2%
North America	$ 9,271	$10,537	$10,440	(12)%	1%
International, principally Europe	2,499	2,181	2,060	15%	6%
Total	$11,770	$12,718	$12,500	(7)%	2%

	2007	2007 (B)	2006	2006 (B)	2005	2005 (B)
Operating Profit (Loss): (A)						
Cabinets and Related Products	$ 336	$ 336	$ 122	$ 438	$ 515	$ 515
Plumbing Products	265	334	280	281	367	374
Installation and Other Services	176	176	344	344	382	382
Decorative Architectural Products	383	383	371	371	275	275
Other Specialty Products	(28)	130	225	225	229	265
Total	$1,132	$ 1,359	$ 1,342	$ 1,659	$1,768	$1,811
North America	$1,008	$ 1,127	$ 1,417	$ 1,428	$1,567	$1,567
International, principally Europe	124	232	(75)	231	201	244
Total	1,132	1,359	1,342	1,659	1,768	1,811
General corporate expense, net	(181)	(181)	(203)	(203)	(192)	(192)
Gains on sale of corporate fixed assets, net	8	8	—	—	8	8
Income regarding litigation settlement	—	—	1	1	6	6
Total operating profit	$ 959	$ 1,186	$ 1,140	$ 1,457	$1,590	$1,633

	2007	2007 (B)	2006	2006 (B)	2005	2005 (B)
Operating Profit (Loss) Margin: (A)						
Cabinets and Related Products	11.9%	11.9%	3.7%	13.3%	15.5%	15.5%
Plumbing Products	7.7%	9.7%	8.5%	8.5%	11.6%	11.8%
Installation and Other Services	6.7%	6.7%	10.9%	10.9%	12.5%	12.5%
Decorative Architectural Products	21.6%	21.6%	21.6%	21.6%	17.1%	17.1%
Other Specialty Products	(2.5)%	11.8%	17.8%	17.8%	17.3%	20.0%
North America	10.9%	12.2%	13.4%	13.6%	15.0%	15.0%
International, principally Europe	5.0%	9.3%	(3.4)%	10.6%	9.8%	11.8%
Total	9.6%	11.5%	10.6%	13.0%	14.1%	14.5%
Total operating profit margin, as reported	8.1%	N/A	9.0%	N/A	12.7%	N/A

(A) Before: general corporate expense, net, gains on sale of corporate fixed assets, net, and income regarding the Behr litigation settlement (related to the Decorative Architectural Products segment).

(B) Excluding impairment charges for goodwill and other intangible assets. The 2007 impairment charges for goodwill and other intangible assets were as follows: Plumbing Products – $69 million; and Other Specialty Products – $158 million. The 2006 impairment charges for goodwill were as follows: Cabinets and Related Products – $316 million; and Plumbing Products – $1 million. The 2005 impairment charges for goodwill were as follows: Plumbing Products – $7 million; and Other Specialty Products – $36 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, gains on sale of corporate fixed assets, net, income regarding the litigation settlement, and impairment charges for goodwill and other intangible assets in 2007, 2006 and 2005.

Business Rationalizations and Other Initiatives

Over the past several years, the Company has been focused on the rationalization of its businesses, including sourcing programs, business consolidations, plant closures, headcount reductions, plant start-ups, systems implementations and other initiatives. For the year ended December 31, 2007, the Company incurred net costs and charges of $79 million related to these initiatives, net of an $8 million gain from the sale of fixed assets.

During 2006, the Company incurred $39 million pre-tax of costs and charges (primarily accelerated depreciation and severance expense) related to a plant closure and other profit improvement programs in the Plumbing Products segment. In addition, in 2006, the Company incurred $8 million pre-tax of costs and charges (including the write-down of inventories and accelerated depreciation) related to the closure of a relatively small ready-to-assemble cabinet manufacturing facility in the Cabinets and Related Products segment. In 2005, the Company also incurred approximately $12 million pre-tax of charges related to headcount reductions and the discontinuance of a product line in the Plumbing Products segment.

Cabinets and Related Products

Net sales of Cabinets and Related Products decreased in 2007 primarily due to a decline in sales volume of assembled cabinets in the new home construction market, which reduced sales in this segment by 11 percent compared to 2006. A decline in net sales of ready-to-assemble cabinets reduced sales in this segment by five percent in 2007 compared to 2006. A weaker U.S. dollar had a positive effect on the translation of local currencies of European operations included in this segment and increased sales by two percent in 2007 compared to 2006. Net sales in this segment decreased in 2006 primarily due to lower sales of ready-to-assemble cabinets in North America and Europe, which more than offset certain selling price increases and sales volume increases of assembled cabinets in North America in the first half of 2006. Net sales in this segment in 2005 were affected by increased sales volume in the new construction market, as well as certain selling price increases.

Operating profit margins in the Cabinets and Related Products segment were negatively affected by the decline in sales volume in 2007, which reduced operating profit margin by three percentage points, as well as increased start-up costs and the under-utilization of two new plants in this segment, and increased severance costs. Such declines were partially offset by a gain on the sale of a manufacturing facility of $8 million and benefits associated with business rationalizations and other initiatives. In 2006, operating profit margins in this segment were negatively affected by a decline in sales volume in the last half of the year, as well as increased commodity, freight and plant start-up costs and lower results of European operations, offset in part by selling price increases. In 2006, operating profit margins in this segment were also negatively affected by $8 million of costs and charges related to the closure of a relatively small ready-to-assemble cabinet manufacturing facility. Operating profit margins in 2005 reflect increased commodity and freight costs and manufacturing and distribution inefficiencies in North America, as well as a shift to a less favorable product mix, which offset the positive impact of higher unit sales volume.

Plumbing Products

Net sales of Plumbing Products increased in 2007 and 2006 primarily due to increased sales volume of certain European operations, which increased sales in this segment by three percent in 2007 compared to 2006. In 2007, increased selling prices also increased sales in this segment by three percent compared to

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2006. These results were partially offset by declining sales volume to North American retail and wholesale customers, which reduced sales in this segment by four percent in 2007 compared to 2006. A weaker U.S. dollar also had a positive effect on the translation of local currencies of European operations included in this segment and increased sales by four percent in 2007 compared to 2006 and increased sales by one percent in 2006 compared to 2005. Net sales in this segment in 2005 were affected by increased sales through the Company's wholesale distribution channel and the increased sales of certain European operations included in this segment.

Operating profit margins in the Plumbing Products segment in 2007 were negatively affected by increased commodity costs in early 2007, which reduced operating profit margin by 1.7 percentage points compared to 2006. Such declines were partially offset by selling price increases and the reduction of certain variable expenses. Operating profit margins in this segment were adversely affected by costs and charges aggregating $39 million and $12 million in 2006 and 2005, respectively, related to certain profit improvement initiatives; excluding such charges, operating profit margins in this segment would have been 9.7 percent and 12.2 percent in 2006 and 2005, respectively. In 2006, operating profit margins in this segment were negatively affected by increased commodity costs, as well as a less favorable product mix and declining sales volume to certain retail customers. Operating profit margins in 2005 were affected by increased commodity costs, which were not offset by selling price increases and a less favorable product mix, which more than offset increased sales volume in the wholesale distribution channel.

The Company's Plumbing Products segment continues to be negatively impacted by import competition, as well as a product mix shift towards lower-margin faucets within the North American retail channels. As part of the Company's strategic review of its businesses, the Company determined that in order to remain competitive, it is necessary to increase off-shore sourcing at lower costs, while consolidating and reducing manufacturing operations in North America. Consistent with this determination, in 2006, the Company closed a North American plant in this segment.

Installation and Other Services

Net sales of Installation and Other Services decreased in 2007 primarily due to lower sales volume related to the continued slowdown in the new home construction market, which reduced sales in this segment by 20 percent compared to 2006 and declines in selling prices, partially offset by acquisitions which increased sales in this segment by six percent compared to 2006. Net sales in this segment increased in 2006 primarily due to increased sales volume of non-insulation products and selling price increases in the first half of 2006. However, the slowdown in the new home construction market significantly reduced sales in the second half of 2006 compared to 2005. Net sales in this segment in 2005 were affected by increased selling prices, as well as increased sales volume of non-insulation products and strength in the new home construction market.

Operating profit margins in the Installation and Other Services segment were lower in 2007 primarily due to lower sales volume and the related under-absorption of fixed costs, which decreased operating profit margin in this segment by approximately three percentage points compared to 2006, and lower selling prices. The year 2007 also included increased bad debt expense, increased severance and location closure costs and increased systems implementation expenses, which, on a combined basis, reduced operating profit margin in this segment by one percentage point compared to 2006. Partially offsetting these declines were reductions in material costs, as well as benefits associated with the business rationalizations and other initiatives. In 2006, the operating profit margin decline in this segment was primarily attributable to increased sales volume of generally lower-margin, non-insulation products, as well as increased operating costs to support the segment's growth in non-insulation products, new product development and technology initiatives. Operating profit margins in 2005 were affected by increases in sales of generally lower-margin, non-insulation products, as well as the time lag in implementing selling price increases related to material cost increases, partially offset by the favorable impact of higher sales volume.

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Decorative Architectural Products

Net sales of Decorative Architectural Products increased in 2007 primarily due to higher retail sales volume from new product introductions of paints and stains, which increased sales in this segment by four percent compared to 2006, which was partially offset by sales declines related to builder's hardware. Net sales in this segment increased in 2006 primarily due to selling price increases of paints and stains. Net sales in this segment increased in 2005 primarily due to increased sales volume of paints and stains.

Operating profit margins in the Decorative Architectural Products segment in 2007 primarily reflect increased sales volume of paints and stains, offset by increased advertising expenses. In 2006, operating profit margins in this segment improved due to increased selling prices of paints and stains, which partially offset commodity cost increases experienced in late 2004 and during 2005. Operating profit margins in this segment in 2005 were impacted by increased material and freight costs, which were not completely offset by increased selling prices related to paints and stains.

Other Specialty Products

Net sales of Other Specialty Products decreased principally due to lower sales volume of windows and doors, primarily resulting from the continued slowdown in the new home construction market, particularly in the Western United States, which decreased sales in this segment by 14 percent in 2007 compared to 2006 and four percent in 2006 compared to 2005. A weaker U.S. dollar had a positive effect on the translation of local currencies of European operations included in this segment and increased sales by two percent in 2007 compared to 2006. Net sales in this segment in 2005 were affected by increased sales volume and certain selling price increases of windows and doors to the North American new home construction market, partially offset by reduced sales of European operations included in this segment.

Operating profit margins in the Other Specialty Products segment declined in 2007 due to lower sales volume of windows and doors in the new home construction market, which decreased operating profit margin by 3.2 percentage points compared to 2006, and lower results of European operations, which reduced operating profit by 1.6 percentage points compared to 2006. Operating profit margins in this segment declined in 2006 due to lower sales volume of windows and doors, which offset improved European operating results. Operating profit margins in this segment in 2005 were affected by increased commodity costs and the lower results of European operations, reflecting charges related to profit improvement initiatives, offset in part by reduced state use tax expense.

Geographic Area Results Discussion

North America

Net sales from North American operations decreased in 2007 primarily due to the continued decline in the new home construction market, which declined 25 percent in 2007 compared to 2006 and a decline in consumer spending for home improvement products. North American sales in 2007 were negatively affected by lower sales volume of installation and other services, assembled cabinets and windows and doors in the new home construction market which decreased sales from North American operations by 11 percent compared to 2006. In addition, North American net sales were negatively affected by lower retail sales volume of certain products, partially offset by increased retail sales volume of paint and stains, which aggregated a net decrease to sales from North American operations of one percent in 2007 compared to 2006. Net sales from North American operations increased slightly in 2006 benefiting from relatively stronger market conditions in the first half of 2006, as well as increased selling prices. An accelerating decline in the new home construction market and a moderation in consumer spending reduced sales volume in the second half of 2006 particularly for assembled cabinets, windows and doors and sales of insulation products. Net sales from North American operations in 2005 were affected by the strength in the new home construction market and increased sales volume of cabinets, installation sales of insulation and non-insulation products, and sales of vinyl and fiberglass windows and patio doors, as well as increased selling prices for certain products.

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In North America, the Company manufactures products (principally windows, doors and cabinets) and provides installation of insulation and other services to homebuilders. The Company has relationships with 90 of the top 100 builders in the United States. The Company has seen an increase in bad debt expense, related to homebuilders, from $7 million in 2006 to $22 million in 2007. The Company monitors its customer receivable balances and the credit worthiness of its customers on an ongoing basis. Currently, the top ten U.S. homebuilders represent less than three percent of the Company's consolidated receivable balance of $1.4 billion.

The decline in operating profit margin from North American operations in 2007 is primarily due to declines in new home construction and consumer spending, which negatively impacted the sales volume of certain products, and decreased operating profit margin by two percentage points compared to 2006. The declines in 2007 were partially offset by selling price increases, and the benefits associated with the Company's business rationalizations and other initiatives. In 2006, the operating profit margins declined from North American operations due to sales volume declines in the second half of 2006 of ready-to-assemble cabinets, windows and doors and the installation of insulation products. Operating profit margins in 2006 were also negatively affected by increased commodity costs, partially offset by selling price increases. Operating profit margins in 2005 were impacted by continued increases in commodity, energy, freight and other petroleum-based product costs, which were only partially offset by selling price increases, and increased sales volume of cabinets, installation services and windows and patio doors to the new home construction market.

International, Principally Europe

Net sales from International operations increased in 2007 primarily due to increased sales volume of plumbing products which increased sales from International operations in local currencies by five percent compared to 2006. A weaker U.S. dollar had a positive effect on the translation of International results in 2007, increasing International net sales by ten percent compared to 2006. Net sales from International operations increased in 2006 primarily due to increased sales of plumbing products, which increased sales from International operations in local currencies by six percent compared to 2005. A weaker U.S. dollar had a positive effect on the translation of European results, increasing European net sales by one percent in 2006 compared to 2005. Net sales from International operations in 2005 were affected by the increased local currency sales of exported plumbing products and ready-to-assemble cabinets, offset in part by declining sales of windows and other plumbing products.

Operating profit margins in 2007 were negatively affected by a less favorable product mix and material cost increases. Operating profit margins in 2006 were negatively affected by the lower operating results for European ready-to-assemble cabinets, which more than offset the positive effect of increased sales volume of plumbing products and improved operating results of other European operations. Operating profit margins in 2005 were negatively affected by increased commodity costs and costs associated with certain profit improvement initiatives, as well as a less favorable product mix.

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Other Matters

Commitments and Contingencies

Litigation

Information regarding legal proceedings involving the Company is set forth in Note T to the consolidated financial statements.

Other Commitments

With respect to the Company's investments in private equity funds, the Company had, at December 31, 2007, commitments to contribute up to $49 million of additional capital to such funds, representing the Company's aggregate capital commitment to such funds less capital contributions made to date. The Company is contractually obligated to make additional capital contributions to its private equity funds upon receipt of a capital call from the private equity fund. The Company has 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 the Company's investment in the private equity fund when paid.

The Company enters into contracts, which include reasonable and customary indemnifications that are standard for the industries in which it operates. Such indemnifications include claims made against builders by homeowners for issues relating to the Company's products and workmanship. In conjunction with divestitures and other transactions, the Company occasionally provides reasonable and customary indemnifications relating to various items, including: the enforceability of trademarks; legal and environmental issues; provisions for sales returns; and asset valuations. The Company has never had to pay a material amount related to these indemnifications, and evaluates the probability that amounts may be incurred and appropriately records an estimated liability when probable.

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Contractual Obligations

The following table provides payment obligations related to current contracts at December 31, 2007, in millions:

	Payments Due by Period					
	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years	Other (D)	Total
Debt (A)	$122	$ 314	$ 926	$2,726	$—	$4,088
Interest (A)	240	456	411	1,175	—	2,282
Operating leases	110	125	57	59	—	351
Currently payable income taxes	23	—	—	—	—	23
Defined-benefit plans	22	27	29	80	—	158
Private equity funds (B)	16	16	17	—	—	49
Acquisition-related commitments	3	6	1	—	—	10
Post-retirement obligations	1	1	1	4	—	7
Purchase commitments (C)	237	82	—	—	—	319
Unrecognized tax benefits, including interest and penalties (D)	—	—	—	—	95	95
Total	$774	$1,027	$1,442	$4,044	$95	$7,382

(A) The Company assumed that all debt would be held to maturity, except for the Zero Coupon Convertible Senior Notes, which would be held until the next put option date of July 20, 2011.

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

(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 unrecognized tax benefits, the Company is unable to make a reasonable estimate of the period beyond the next year in which cash settlements may occur with applicable tax authorities.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of SFAS No. 157 is effective January 1, 2008 for financial assets and liabilities and is not expected to have a material effect on the Company's consolidated financial statements. The adoption of SFAS No. 157 is effective January 1, 2009 for non-financial assets and liabilities, and the Company is currently evaluating the impact these provisions will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS No. 115," ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS No. 159 is optional and is effective January 1, 2008. The Company has elected not to adopt SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R requires that the acquisition method be applied to all business combinations and it establishes requirements for the recognition and measurement of the acquired assets and liabilities by the

acquiring company. Further, it requires that costs incurred to complete any acquisition be recognized as expense in the consolidated statement of income. SFAS No. 141R also requires that contingent assets and liabilities be recorded at fair value and marked to market quarterly until they are settled, with any changes to the fair value to be recorded as income or expense in the consolidated statement of income. SFAS No. 141R is effective for any business combinations that are completed subsequent to January 1, 2009. The Company is currently evaluating the impact the provisions of SFAS No. 141R will have on its consolidated financial statements and its method of accounting for business combinations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet as a component of shareholders' equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. SFAS No. 160 is effective January 1, 2009, and the Company is currently evaluating the impact of this pronouncement to its consolidated financial statements.

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

The Company has considered the provisions of Financial Reporting Release No. 48, "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."

The Company is exposed to the impact of changes in interest rates and foreign currency exchange rates in the normal course of business and to market price fluctuations related to its marketable securities and other investments. The Company has limited involvement with derivative financial instruments and uses such instruments to the extent necessary to manage exposure to fluctuations in interest rates and foreign currency fluctuations. See Note F to the consolidated financial statements for additional information regarding the Company's derivative instruments.

The derivatives used by the Company for the year ended December 31, 2007 consist of interest rate swap agreements entered into in 2004 for the purpose of effectively converting a portion of fixed-rate debt to variable-rate debt. The Company, including certain European operations, also entered into foreign currency forward contracts to manage exposure to currency fluctuations related primarily to the European euro, the Great Britain pound and the U.S. dollar.

At December 31, 2007, the Company performed sensitivity analyses to assess the potential loss in the fair values of market risk sensitive instruments resulting from a hypothetical change of 200 basis points in average interest rates, a 10 percent change in foreign currency exchange rates or a 10 percent decline in the market value of the Company's long-term investments. Based upon the analyses performed, such changes would not be expected to materially affect the Company's consolidated financial position, results of operations or cash flows.

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, 2007 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, 2007.

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, 2007. Their report expressed an unqualified opinion on the effectiveness of Masco Corporation's internal control over financial reporting as of December 31, 2007 and expressed an unqualified opinion on the Company's 2007 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 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, 2007, 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.

As discussed in Note R to the consolidated financial statements, the Company changed its method of accounting for unrecognized tax benefits in 2007. As discussed in Note M to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation in 2006. In addition, as discussed in Note N to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans effective December 31, 2006.

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

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

PricewaterhouseCoopers LLP
Detroit, Michigan
February 22, 2008

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MASCO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

at December 31, 2007 and 2006

(In Millions, Except Share Data)	2007	2006
ASSETS		
Current Assets:		
Cash and cash investments	$ 922	$ 1,958
Receivables	1,405	1,613
Inventories	1,126	1,263
Prepaid expenses and other	355	281
Total current assets	3,808	5,115
Property and equipment, net	2,367	2,363
Goodwill	3,938	3,957
Other intangible assets, net	323	306
Other assets	471	584
Total Assets	$10,907	$12,325
LIABILITIES and SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 714	$ 815
Notes payable	122	1,446
Accrued liabilities	1,072	1,128
Total current liabilities	1,908	3,389
Long-term debt	3,966	3,533
Deferred income taxes and other	1,008	932
Total Liabilities	6,882	7,854
Commitments and contingencies		
Shareholders' Equity:		
Common shares authorized: 1,400,000,000; issued and outstanding: 2007 – 358,900,000; 2006 – 383,890,000	359	384
Preferred shares authorized: 1,000,000; issued and outstanding: 2007 – None; 2006 – None	—	—
Retained earnings	2,969	3,575
Accumulated other comprehensive income	697	512
Total Shareholders' Equity	4,025	4,471
Total Liabilities and Shareholders' Equity	$10,907	$12,325

See notes to consolidated financial statements.

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MASCO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31, 2007, 2006 and 2005

(In Millions, Except Per Common Share Data)	2007	2006	2005
Net sales	$11,770	$12,718	$12,500
Cost of sales	8,559	9,212	8,932
Gross profit	3,211	3,506	3,568
Selling, general and administrative expenses	2,025	2,050	1,941
Income regarding litigation settlement	–	(1)	(6)
Impairment charges for goodwill and other intangible assets	227	317	43
Operating profit	959	1,140	1,590
Other income (expense), net:			
Interest expense	(258)	(240)	(247)
Impairment charges for financial investments	(22)	(101)	(45)
Other, net	91	115	127
	(189)	(226)	(165)
Income from continuing operations before income taxes, minority interest and cumulative effect of accounting change, net	770	914	1,425
Income taxes	336	409	514
Income from continuing operations before minority interest and cumulative effect of accounting change, net	434	505	911
Minority interest	37	27	22
Income from continuing operations before cumulative effect of accounting change, net	397	478	889
(Loss) income from discontinued operations, net	(11)	13	51
Cumulative effect of accounting change, net	–	(3)	–
Net income	$ 386	$ 488	$ 940
Earnings per common share:			
Basic:			
Income from continuing operations before cumulative effect of accounting change, net	$ 1.08	$ 1.21	$ 2.11
(Loss) income from discontinued operations, net	(.03)	.03	.12
Cumulative effect of accounting change, net	–	(.01)	–
Net income	$ 1.05	$ 1.24	$ 2.23
Diluted:			
Income from continuing operations before cumulative effect of accounting change, net	$ 1.06	$ 1.20	$ 2.07
(Loss) income from discontinued operations, net	(.03)	.03	.12
Cumulative effect of accounting change, net	–	(.01)	–
Net income	$ 1.03	$ 1.22	$ 2.19

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, 2007, 2006 and 2005

	(In Millions)		
	2007	2006	2005
Cash Flows From (For) Operating Activities:			
Net income	$ 386	$ 488	$ 940
Depreciation and amortization	248	244	241
Deferred income taxes	(41)	(42)	75
Loss (gain) on disposition of businesses, net	18	(51)	(63)
Gain on disposition of investments, net	(41)	(31)	(98)
Income regarding litigation settlement	–	(1)	(6)
Cumulative effect of accounting change, net	–	3	–
Impairment charges:			
Financial investments	22	101	45
Goodwill and other intangible assets	227	331	69
Stock-based compensation	94	100	71
Minority interest	37	27	22
Other items, net	37	96	69
Decrease (increase) in receivables	243	106	(94)
Decrease (increase) in inventories	157	(126)	(57)
(Decrease) increase in accounts payable and accrued liabilities, net	(117)	(37)	160
Net cash from operating activities	1,270	1,208	1,374
Cash Flows From (For) Financing Activities:			
Increase in debt	4	21	33
Payment of debt	(56)	(31)	(120)
Issuance of notes, net of issuance costs	596	988	494
Retirement of notes	(1,425)	(827)	–
Purchase of Company common stock	(857)	(854)	(986)
Issuance of Company common stock	60	28	33
Tax benefit from stock-based compensation	19	18	–
Cash dividends paid	(347)	(349)	(339)
Net cash for financing activities	(2,006)	(1,006)	(885)
Cash Flows From (For) Investing Activities:			
Capital expenditures	(248)	(388)	(282)
Acquisition of businesses, net of cash acquired	(203)	(28)	(25)
Purchases of marketable securities	–	(142)	(155)
Purchases of auction rate securities	(1,047)	(1,035)	(513)
Proceeds from disposition of auction rate securities	1,025	1,129	419
Proceeds from disposition of:			
Marketable securities	55	174	301
Businesses, net of cash disposed	45	160	278
Property and equipment	45	16	37
Other financial investments, net	75	39	47
Other, net	(94)	(57)	(15)
Net cash (for) from investing activities	(347)	(132)	92
Effect of exchange rate changes on cash and cash investments	47	18	(5)
Cash and Cash Investments:			
(Decrease) increase for the year	(1,036)	88	576
Cash at businesses held for sale	–	–	38
At January 1	1,958	1,870	1,256
At December 31	$ 922	$ 1,958	$1,870

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, 2007, 2006 and 2005

(In Millions, Except Per Share Data)

	Total	Common Shares ($1 par value)	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Restricted Stock Awards
Balance, January 1, 2005	$5,423	$447	$ 642	$3,880	$ 627	$(173)
Net income	940			940		
Cumulative translation adjustments	(251)				(251)	
Unrealized loss on marketable securities, net of income tax benefit of $5	(10)				(10)	
Minimum pension liability, net of income tax benefit of $23	(38)				(38)	
Total comprehensive income	641					
Shares issued	105	4	101			
Shares retired:						
Repurchased	(986)	(31)	(758)	(197)		
Surrendered (non-cash)	(33)	(1)	(32)			
Cash dividends declared	(337)			(337)		
Stock-based compensation	35		47			(12)
Balance, December 31, 2005	$4,848	$419	$ –	$4,286	$ 328	$(185)
Net income	488			488		
Cumulative translation adjustments	208				208	
Unrealized loss on marketable securities, net of income tax benefit of $6	(10)				(10)	
Minimum pension liability, net of income tax of $33	56				56	
Total comprehensive income	742					
Unrecognized prior service cost and net loss, net of income tax benefit of $38	(70)				(70)	
Shares issued	60	4	56			
Shares retired:						
Repurchased	(854)	(29)	(154)	(671)		
Surrendered (non-cash)	(20)	(1)	(19)			
Cash dividends declared	(352)			(352)		
Stock-based compensation	117		117			
Reclassification of restricted stock awards	–	(9)		(176)		185
Balance, December 31, 2006	$4,471	$384	$ –	$3,575	$ 512	$ –
Net income	386			386		
Cumulative translation adjustments	143				143	
Unrealized loss on marketable securities, net of income tax benefit of $5	(7)				(7)	
Unrecognized prior service cost and net loss, net of income tax of $27	49				49	
Total comprehensive income	571					
Cumulative effect of accounting change regarding income tax uncertainties (Note R)	(26)			(26)		
Other	(7)			(7)		
Shares issued	115	6	109			
Shares retired:						
Repurchased	(857)	(31)	(213)	(613)		
Surrendered (non-cash)	(14)		(14)			
Cash dividends declared	(346)			(346)		
Stock-based compensation	118		118			
Balance, December 31, 2007	$4,025	$359	$ –	$2,969	$ 697	$ –

See notes to consolidated financial statements.

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A. ACCOUNTING POLICIES

Principles of Consolidation. The consolidated financial statements include the accounts of Masco Corporation and all majority-owned subsidiaries. All significant intercompany transactions have been eliminated. The Company consolidates the assets, liabilities and results of operations of variable interest entities, for which the Company is the primary beneficiary, in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46 – Revised, "Consolidation of Variable Interest Entities."

Use of Estimates and Assumptions in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

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

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

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

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

Receivables. The Company does significant business with a number of customers, including certain home centers and homebuilders. The Company monitors its exposure for credit losses and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer balances, where a risk of default has been identified, and also include a provision for non-customer specific defaults based upon historical collection, return and write-off activity. A separate allowance is recorded for customer incentive rebates and is generally based upon sales activity. Receivables are presented net of certain allowances (including allowances for doubtful accounts) of $85 million and $84 million at December 31, 2007 and 2006, respectively. Receivables include unbilled revenue related to the Installation and Other Services segment of $31 million and $40 million at December 31, 2007 and 2006, respectively.

Property and Equipment. Property and equipment, including significant betterments to existing facilities, are recorded at cost. Upon retirement or disposal, the cost and accumulated depreciation

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A. ACCOUNTING POLICIES – (Continued)

are removed from the accounts and any gain or loss is included in the consolidated statements of income. Maintenance and repair costs are charged against earnings as incurred.

Depreciation. Depreciation expense is computed principally using the straight-line method over the estimated useful lives of the assets. Annual depreciation rates are as follows: buildings and land improvements, 2 to 10 percent, and machinery and equipment, 5 to 33 percent. Depreciation expense was $226 million, $228 million and $207 million in 2007, 2006 and 2005, respectively.

Goodwill and Other Intangible Assets. Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," requires goodwill and other intangible assets to be tested for impairment annually and under certain circumstances. The Company performs such testing of goodwill and other indefinite-lived 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 business unit below its carrying amount. The Company compares the fair value of the reporting business units to the carrying value of the reporting business units for goodwill impairment testing. Fair value is determined using a discounted cash flow method.

The Company reviews its other indefinite-lived intangible assets for impairment annually or as events occur or circumstances change that indicate the assets may be impaired. The Company considers the implications of both external (e.g., market growth, competition and local economic conditions) and internal (e.g., product sales and expected product growth) factors and their potential impact on cash flows related to the intangible asset in both the near- and long-term.

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. The Company evaluates 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. See Note H for additional information regarding Goodwill and Other Intangible Assets.

Fair Value of Financial Instruments and Derivative Instruments. The carrying value of financial instruments reported in the consolidated balance sheets for current assets, current liabilities and long-term floating-rate debt approximates fair value. The fair value of financial instruments that are carried as non-current investments is based principally upon information from investment fund managers and other assumptions, on quoted market prices for those or similar investments, by estimating the fair value of consideration to be received or by discounting future cash flows using a discount rate that reflects the risk of the underlying investments. The fair value of the Company's long-term fixed-rate debt instruments is based principally upon quoted market prices for the same or similar issues or the current rates available to the Company for debt with similar terms and remaining maturities. The aggregate estimated market value of non-current investments and long-term debt at December 31, 2007 was approximately $150 million and $4,073 million, compared with the aggregate carrying value of $150 million and $3,966 million, respectively. The aggregate estimated market value of non-current investments and long-term debt at December 31, 2006 was approximately $246 million and $3,616 million, compared with the aggregate carrying value of $246 million and $3,533 million, respectively.

The Company uses derivative financial instruments to manage certain exposure to fluctuations in earnings and cash flows resulting from changes in foreign currency exchange rates and interest rates. Derivative financial instruments are recorded in the consolidated balance sheets as either an asset or liability measured at fair value. For each derivative financial instrument that is designated and qualifies as a fair-value hedge, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in determining current earnings during the period of the change in fair values. For derivative instruments not designated as hedging

A. ACCOUNTING POLICIES – (Continued)

instruments, the gain or loss is recognized in determining current earnings during the period of the change in fair value.

Warranty. At the time of sale, the Company accrues a warranty liability for estimated costs to provide products, parts or services to repair or replace products in satisfaction of warranty obligations. The Company's estimate of costs to service its warranty obligations is based upon historical experience and expectations of future conditions.

A significant portion of the Company's 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 the Company. The Company's revenue recognition policy takes into account this type of return when recognizing revenue, and deductions are recorded at the time of sale.

Product Liability. The Company provides for expenses associated with product liability obligations when such amounts are probable and can be reasonably estimated. The accruals are adjusted as new information develops or circumstances change that would effect the estimated liability.

Stock-Based Compensation. The Company elected to change its method of accounting for stock-based compensation and implemented the fair value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," effective January 1, 2003. The Company used the prospective method, as defined by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment to SFAS No. 123," for determining stock-based compensation expense. Accordingly, options granted, modified or settled subsequent to January 1, 2003 have been accounted for using the fair value method and options granted prior to January 1, 2003 were accounted for using the intrinsic value method.

Effective January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment," ("SFAS No. 123R") using the Modified Prospective Application ("MPA") method. The MPA method requires the Company to recognize expense for unvested stock options that were awarded prior to January 1, 2003 through the remaining vesting periods. The MPA method did not require the restatement of prior-year information. In accordance with SFAS No. 123R, the Company utilized the shortcut method to determine the tax windfall pool associated with stock options as of the date of adoption.

A. ACCOUNTING POLICIES – (Continued)

The following table illustrates the pro forma effect on net income and earnings per common share for 2005, as if the fair value method were applied to all previously issued stock options, in millions, except per common share amounts:

	2005
Net income, as reported	$ 940
Add:	
Stock-based employee compensation expense included in reported net income, net of tax	47
Deduct:	
Stock-based employee compensation expense, net of tax	(47)
Stock-based employee compensation expense determined under the fair value method for stock options granted prior to 2003, net of tax	(7)
Pro forma net income	$ 933
Earnings per common share:	
Basic as reported	$2.23
Basic pro forma	$2.21
Diluted as reported	$2.19
Diluted pro forma	$2.17

Interest and Penalties on Unrecognized Tax Benefits. The Company records interest and penalties on its unrecognized tax benefits in income tax expense.

Reclassifications. Certain prior-year amounts have been reclassified to conform to the 2007 presentation in the consolidated financial statements. The results of operations related to 2007, 2006 and 2005 discontinued operations have been reclassified and separately stated in the accompanying consolidated statements of income for 2007, 2006 and 2005. In the Company's consolidated statements of cash flows, the cash flows from discontinued operations are not separately classified.

Recently Issued Accounting Pronouncements. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of SFAS No. 157 is effective January 1, 2008 for financial assets and liabilities and is not expected to have a material effect on the Company's consolidated financial statements. The adoption of SFAS No. 157 is effective January 1, 2009 for non-financial assets and liabilities, and the Company is currently evaluating the impact these provisions will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS No. 115," ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS No. 159 is optional and is effective January 1, 2008. The Company has elected not to adopt SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R requires that the acquisition method be applied to all business combinations and it establishes requirements for the recognition and measurement of the acquired assets and liabilities by the acquiring company. Further, it requires that costs incurred to complete any acquisition be recognized as expense in the consolidated statement of income. SFAS No. 141R also requires that contingent assets and

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A. ACCOUNTING POLICIES – (Concluded)

liabilities be recorded at fair value and marked to market quarterly until they are settled, with any changes to the fair value to be recorded as income or expense in the consolidated statement of income. SFAS No. 141R is effective for any business combinations that are completed subsequent to January 1, 2009. The Company is currently evaluating the impact the provisions of SFAS No. 141R will have on its consolidated financial statements and its method of accounting for business combinations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated balance sheet as a component of shareholders' equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. SFAS No. 160 is effective January 1, 2009, and the Company is currently evaluating the impact of this pronouncement to its consolidated financial statements.

B. DISCONTINUED OPERATIONS

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144") addresses the accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 broadens the presentation of discontinued operations to include a component of the Company, which comprises operations and cash flows, that can be clearly distinguished from the rest of the Company. In accordance with SFAS No. 144, the Company has accounted for the business units which were sold in 2007, 2006 and 2005, except as noted, as discontinued operations.

During 2007, the Company completed the sale of Avocet, a European business unit in the Decorative Architectural Products segment. This disposition was completed pursuant to the Company's determination that this business unit was not core to the Company's long-term growth strategy. Total gross proceeds from the sale were $41 million; the Company recognized a pre-tax net loss on the disposition of Avocet of $11 million. During 2007, the Company recorded other net gains of $1 million, reflecting the receipt of additional purchase price payments related to businesses disposed in 2006 and 2005.

During 2006, the Company completed the sale of Computerized Security Systems ("CSS"), a North American business unit in the Other Specialty Products segment. This disposition was completed pursuant to the Company's determination that this business unit was not core to the Company's long-term growth strategy. Total gross proceeds from the sale were $92 million; the Company recognized a pre-tax net gain on the disposition of CSS of $51 million. During 2006, the Company recorded additional net expenses of $1 million, reflecting the final purchase price payments related to businesses disposed in 2005.

During 2005, in separate transactions, the Company completed the sale of its Gebhardt Consolidated (Other Specialty Products segment) and GMU Group (Cabinets and Related Products segment) business units in Europe, as part of the Company's 2004 Plan, as well as its Zenith Products (North America) and Aran Group (Europe) business units in the Cabinets and Related Products segment. Total gross proceeds from the sale of these businesses were $319 million; the Company recognized a pre-tax net gain (principally related to the sale of Gebhardt Consolidated and Zenith Products) on the disposition of these businesses of $59 million. During 2005, the Company recorded a gain on the disposition of discontinued operations of $4 million related to the reversal of certain fee and expense accruals that were recorded in 2004. During 2005, the Company also recorded income from discontinued operations of $3 million related to the reversal of severance accruals that were recorded in 2004.

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B. DISCONTINUED OPERATIONS – (Concluded)

(Losses) gains from these 2007, 2006 and 2005 discontinued operations discussed above were included in (loss) income from discontinued operations, net, in the consolidated statements of income.

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

	2007	2006	2005
Net sales	$ 63	$115	$384
Income (loss) from discontinued operations	$ 2	$ (6)	$ 26
(Loss) gain on disposal of discontinued operations, net	(10)	50	63
(Loss) income before income tax	(8)	44	89
Income tax	(3)	(31)	(38)
(Loss) income from discontinued operations, net	$(11)	$ 13	$ 51

Income (loss) from discontinued operations also includes non-cash, pre-tax and after tax impairment charges for goodwill of $14 million and $26 million in 2006 and 2005, respectively. Included in income tax above was income tax expense related to income from discontinued operations of $2 million, $7 million and $15 million in 2007, 2006 and 2005, respectively.

During 2007, the Company completed the sale of two small businesses, the results of which were included in continuing operations through the dates of sale. These small businesses in the Plumbing Products segment had combined net sales and operating (loss) of $12 million and $(400,000), respectively, in 2007 through the respective dates of sale and combined net sales and operating profit of $33 million and $3 million, respectively, for the year ended December 31, 2006. Gross proceeds from the sale of these businesses were $10 million; the Company recognized a net loss of $8 million included in other, net, in continuing operations, related to the sale of these businesses, for the year ended December 31, 2007.

During 2006, the Company completed the sale of several relatively small businesses, the results of which were included in continuing operations in the Other Specialty Products and Plumbing Products segments through the dates of sale. These businesses had combined net sales and operating profit of $16 million and $5 million, respectively, in 2006 through the respective dates of sale and combined net sales and operating profit of $55 million and $12 million, respectively, in 2005. Gross proceeds from the sale of these businesses were $72 million; the Company recognized a net gain of $1 million in 2006 included in other, net, in continuing operations for the year ended December 31, 2006.

C. ACQUISITIONS

During 2007, the Company acquired several relatively small installation service businesses (Installation and Other Services segment), as well as Erickson Construction Company and Guy Evans, Inc. (Installation and Other Services segment). Erickson Construction Company, headquartered in Arizona, provides pre-fabricated wall panels and millwork for residential builders in Arizona, California and Nevada. Guy Evans, Inc., headquartered in California, is an installer of millwork, doors, windows and bath hardware for residential builders in California and Nevada. These two acquisitions allow the Company to expand the products and services it offers to its installation customers, and had combined annual sales in 2006 of approximately $200 million. These acquisitions had 2007 sales and operating profit of $119 million and $5 million (including $5 million of additional expenses as a result of the acquisition), respectively, since the dates of acquisition. The results of these acquisitions are included in the consolidated financial statement from the respective dates of acquisition.

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C. ACQUISITIONS – (Concluded)

During 2006 and 2005, the Company acquired several relatively small businesses (primarily in the Installation and Other Services segment). The results of these acquisitions are included in the consolidated financial statements from the respective dates of acquisition.

The total net purchase price of these acquisitions was as follows, in millions:

	2007	2006	2005
Cash, net	$195	$28	$10
Assumed debt	7	9	2
Total	$202	$37	$12

Certain purchase agreements provided for the payment of additional consideration in either cash or Company common stock, contingent upon whether certain conditions are met, including the operating performance of the acquired business and the price of the Company's common stock. In 2007 and 2005, the Company paid in cash an additional $1 million and $15 million, respectively, of acquisition-related consideration, contingent consideration and other purchase price adjustments, relating to previously acquired companies. At December 31, 2007 and 2006, the Company had additional consideration payable in cash of $10 million and $6 million, respectively, contingent upon the operating performance of the acquired businesses.

D. INVENTORIES

	(In Millions) At December 31	
	2007	2006
Finished goods	$ 552	$ 610
Raw material	418	480
Work in process	156	173
Total	$1,126	$1,263

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

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E. FINANCIAL INVESTMENTS

The Company has maintained investments in available-for-sale securities and a number of private equity funds, principally as part of its tax planning strategies, as any gains enhance the utilization of any current and future tax capital losses. Financial investments included in other assets were as follows, in millions:

	At December 31	
	2007	2006
Marketable securities	$ 9	$ 72
Auction rate securities	22	–
Asahi Tec Corporation – common and preferred stock	57	–
TriMas Corporation	26	30
Private equity funds	173	211
Metaldyne Corporation	–	57
Other investments	28	9
Total	$315	$379

Investments in marketable securities are accounted for as available-for-sale. Accordingly, the Company records these investments 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. Realized gains and losses and charges for other-than-temporary impairments are included in determining net income, with related purchase costs based upon specific identification.

The Company reviews industry analyst reports, key ratios and statistics, market analyses and other factors for each investment to determine if an unrealized loss is other-than-temporary. Based upon this review, in 2007 and 2005, the Company recognized non-cash, pre-tax impairment charges of $6 million and $28 million, respectively, related to its investment in Furniture Brands International common stock (NYSE: FBN). Based upon this review during 2007, the Company also recognized a non-cash, pre-tax impairment charge of $3 million related to its investment in Asahi Tec (Tokyo Stock Exchange: 5606.T) common stock.

From time to time, the Company invests its excess cash in short-term financial instruments including auction rate securities. Auction rate securities are investment securities that have interest rates which are reset every 7, 28 or 35 days. During the third quarter of 2007, the Company revised the classification of investments in auction rate securities from cash and cash investments to available-for-sale securities included in other assets on the consolidated balance sheet. The Company has also made corresponding adjustments to the consolidated statements of cash flows for the periods ended December 31, 2007, 2006 and 2005, to reflect the gross cash purchases and sales of these securities in cash flows (for) from investing activities. These changes in classification do not affect previously reported consolidated statements of income or cash flows from operating activities in any prior period. During 2007, the Company recognized a non-cash, pre-tax impairment charge of $3 million related to auction rate securities.

On January 11, 2007, the acquisition of Metaldyne Corporation ("Metaldyne") (formerly MascoTech, Inc.) by Asahi Tec Corporation ("Asahi Tec"), a Japanese automotive supplier, was finalized. The combined fair value of the Asahi Tec common and preferred stock, as well as the derivative related to the conversion feature on the preferred stock, received in exchange for the Company's investment in Metaldyne, was $72 million. The Asahi Tec common and preferred stock are restricted from sale for up to 24 months from the transaction date. The preferred stock accrues dividends at an annual rate of 3.75% pay-in-kind or 1.75% cash at the discretion of Asahi Tec; the Company has elected to record such dividends when cash proceeds are received. As a result of the transaction, the Company recognized a

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E. FINANCIAL INVESTMENTS – (Continued)

gain of $14 million, net of transaction fees, included in the Company's consolidated statement of income for the year ended December 31, 2007, in income from other investments, net. Subsequent to the transaction, the Company's investment in Asahi Tec common and preferred stock is accounted for as available-for-sale and unrealized gains or losses related to the change in fair value of the Asahi Tec common and preferred stock at December 31, 2007 have been recognized, net of tax, through shareholders' equity, as a component of accumulated other comprehensive income in the Company's consolidated balance sheet. For the year ended December 31, 2007, the unrealized loss of $17 million related to the change in fair value of the derivative related to the conversion feature on the preferred stock, has been included in the Company's consolidated statement of income, in income from other investments, net. At December 31, 2007, the Company had a net investment in Asahi Tec of $59 million, including $57 million of common and preferred stock and $2 million, included in other investments, related to the conversion derivative.

In addition, immediately prior to its sale, Metaldyne distributed shares of TriMas Corporation ("TriMas") common stock as a dividend to the holders of Metaldyne common stock; the Company recognized income of $4 million included in the Company's consolidated statement of income, in dividend income from other investments. In May 2007, TriMas made an initial public offering; subsequent to the offering, the Company's investment in TriMas is accounted for as available-for-sale and unrealized gains or losses related to the change in fair value of the investment have been recognized, net of tax, through shareholders' equity, as a component of accumulated other comprehensive income in the Company's consolidated balance sheet.

The Company's investments in available-for-sale securities at December 31, 2007 (including marketable securities, auction rate securities, Asahi Tec Corporation common and preferred stock and TriMas Corporation) were as follows, in millions:

		Pre-tax		
	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis
December 31, 2007	$117	$9	$(12)	$114
December 31, 2006	$ 67	$9	$ (4)	$ 72

The Company's investments in private equity funds and other private investments are carried at cost and are evaluated for potential 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. Impairment indicators the Company considers 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; and any bona fide offers to purchase the investment for less than the carrying value. 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. 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 and the amounts realized upon liquidation.

At December 31, 2007, the Company had investments in 49 private equity funds, split between buyout funds and venture capital funds, with a carrying value of $173 million. The 31 buyout funds, which constitute approximately 72 percent of the invested value, invest in established businesses, and, other than the Heartland fund, no buyout funds have a concentration in a particular sector that is undergoing a fundamental change, such as the automotive-related market. The venture capital funds,

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E. FINANCIAL INVESTMENTS – (Continued)

which constitute approximately 28 percent of the invested value, invest in start-up or smaller established businesses, principally in the areas of information technology, bio-technology and healthcare. Of the 49 funds, there are four funds with a carrying value greater than $10 million that aggregate $75 million of carrying value. It is not practical for the Company to estimate a fair value because the private equity funds have no quoted market price and sufficient information is not readily available for the Company to utilize a valuation model to determine a fair value for each fund.

During 2007, the Company determined that the decline in the estimated value of certain private equity fund investments, with an aggregate carrying value of $54 million prior to the impairment, was other-than-temporary. Accordingly, for the year ended December 31, 2007, the Company recognized non-cash, pre-tax impairment charges of $10 million.

During 2006, based upon a review of new information from the Heartland fund concerning fund investments and the continued deterioration of conditions in the automotive supplier and transportation products markets served by Metaldyne and TriMas, the Company determined that the decline in the estimated value of certain of its financial investments was other-than-temporary. Accordingly, in 2006, the Company recognized non-cash, pre-tax impairment charges aggregating $88 million for its investments in Metaldyne ($40 million), TriMas ($16 million), the Heartland fund ($29 million) and another fund ($3 million) which invested in automotive and transportation-related suppliers, including Metaldyne and TriMas. Additionally, based upon the Company's review, the Company considered the decline in the fair value of certain of its other private equity fund investments and other investments to be other-than-temporary and, accordingly, recognized non-cash, pre-tax impairment charges of $13 million and $15 million in 2006 and 2005, respectively.

The Company's investments in private equity funds for which fair value was determined with unrealized losses, were as follows, in millions:

		Unrealized Loss	
	Fair Value	Less than 12 Months	Over 12 Months
December 31, 2007	$ 1	$ (1)	$ –
December 31, 2006	$ –	$ –	$ –

The remaining private equity investments in 2007 and 2006 with an aggregate carrying value of $119 million and $211 million, respectively, were not evaluated for impairment, as there were no indicators of impairment or identified events or changes in circumstances that would have a significant adverse effect on the fair value of the investment.

E. FINANCIAL INVESTMENTS – (Concluded)

Income from financial investments, net, included in other, net, within other income (expense), net, and impairment charges for financial investments were as follows, in millions:

	2007	2006	2005
Realized gains from marketable securities	$ 9	$ 14	$ 39
Realized losses from marketable securities	(4)	(10)	(9)
Dividend income from marketable securities	1	3	4
Income from other investments, net	38	30	69
Dividend income from other investments	5	7	12
Income from financial investments, net	$ 49	$ 44	$115
Impairment charges:			
Private equity funds	$(10)	$ (40)	$ (15)
Auction rate securities	(3)	–	–
Marketable securities	(9)	–	(30)
Metaldyne Corporation	–	(40)	–
TriMas Corporation	–	(16)	–
Other investments	–	(5)	–
Total impairment charges	$(22)	$(101)	$ (45)

The impairment charges, related to the Company's financial investments, recognized during 2007, 2006 and 2005 were based upon then-current estimates for the fair value of certain financial investments; such estimates could change in the near-term based upon future events and circumstances.

F. DERIVATIVES

During 2003, the Company entered into interest rate swap agreements for the purpose of effectively converting a portion of fixed-rate debt to variable-rate debt. In 2004, the Company terminated two interest rate swaps relating to $850 million of fixed-rate debt. These swap agreements were accounted for as fair value hedges. The gain of approximately $45 million from the termination of these swaps is being amortized as a reduction of interest expense over the remaining term of the debt, through July 2012.

In early 2004, the Company entered into two new interest rate swap agreements for the purpose of effectively converting a portion of fixed-rate debt to variable-rate debt. The derivative contracts are with two major creditworthy institutions, thereby minimizing the risk of credit loss. The interest rate swap agreements are designated as fair-value hedges, and the interest rate differential on the interest rate swaps used to hedge existing debt is recognized as an adjustment to interest expense over the term of the agreement. The average variable interest rates are based upon LIBOR plus fixed adjustment factors. The average effective rate on the interest rate swaps was 6.264% in 2007. At December 31, 2007, the interest rate swap agreements covered a notional amount of $850 million of the Company's fixed-rate debt due July 15, 2012 with an interest rate of 5.875%. The hedges are considered 100 percent effective.

In 2007 and 2006, the Company recognized an increase in interest expense of $3 million and $8 million, respectively, related to these swap agreements, due to increasing interest rates. In 2005, the Company recognized a reduction of interest expense of $3 million.

At December 31, 2007, the Company, including certain European operations, had entered into foreign currency forward contracts with notional amounts of $23 million, $7 million and $4 million to

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F. DERIVATIVES – (Concluded)

manage exposure to currency fluctuations in the European euro, the Great Britain pound and the U.S. dollar, respectively. At December 31, 2006, the Company, including certain European operations, had entered into foreign currency forward contracts with notional amounts of $72 million and $51 million to manage exposure to currency fluctuations in the European euro and the Great Britain pound, respectively. Based upon year-end market prices, no asset or liability was recorded at December 31, 2007 and 2006, as the forward prices were substantially the same as the contract prices. Gains (losses) related to these contracts are recorded in the Company's consolidated statements of income in other income (expense), net. The counterparties to the Company's forward contracts are major financial institutions. In the unlikely event that the counterparties fail to meet the terms of the foreign currency forward contracts, the Company's exposure is limited to the aggregate foreign currency rate differential with such institutions.

G. PROPERTY AND EQUIPMENT

	(In Millions) At December 31	
	2007	2006
Land and improvements	$ 214	$ 205
Buildings	1,135	1,069
Machinery and equipment	2,641	2,566
	3,990	3,840
Less: Accumulated depreciation	1,623	1,477
Total	$2,367	$2,363

The Company leases certain equipment and plant facilities under noncancellable operating leases. Rental expense recorded in the consolidated statements of income totaled approximately $166 million, $163 million and $144 million during 2007, 2006 and 2005, respectively. Future minimum lease payments at December 31, 2007 were approximately as follows: 2008 – $110 million; 2009 – $75 million; 2010 – $50 million; 2011 – $28 million; and 2012 and beyond – $88 million.

The Company leases operating facilities from certain related parties, primarily former owners (and in certain cases, current management personnel) of companies acquired. The Company recorded rental expense to such related parties of approximately $7 million, $9 million and $12 million in 2007, 2006 and 2005, respectively.

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H. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for 2007 and 2006, by segment, were as follows, in millions:

	At December 31, 2006	Additions (A)	Pre-tax Impairment Charge	Other (C)	At December 31, 2007
Cabinets and Related Products	$ 288	$ –	$ –	$ 5	$ 293
Plumbing Products	504	41	(69)	23	499
Installation and Other Services	1,740	77	–	(1)	1,816
Decorative Architectural Products	300	–	–	–	300
Other Specialty Products	1,125	1	(108)	12	1,030
Total	$3,957	$119	$(177)	$39	$3,938

	At December 31, 2005	Additions (A)	Deductions (B) Discontinued Operations	Pre-tax Impairment Charge	Other (C)	At December 31, 2006
Cabinets and Related Products	$ 547	$ –	$ –	$(316)	$ 57	$ 288
Plumbing Products	461	–	–	(1)	44	504
Installation and Other Services	1,718	18	–	–	4	1,740
Decorative Architectural Products	311	–	–	(14)	3	300
Other Specialty Products	1,134	–	(48)	–	39	1,125
Total	$4,171	$ 18	$(48)	$(331)	$147	$3,957

(A) Additions include acquisitions.

(B) Includes the disposition of CSS (discontinued operation) and Faucet Queens in the Other Specialty Products segment.

(C) Other principally includes the effect of foreign currency translation and purchase price adjustments related to prior-year acquisitions.

The Company completed its annual impairment testing of goodwill in the fourth quarters of 2007 and 2006. This test indicated that goodwill recorded for certain of the Company's business units was impaired. The Company recognized the non-cash, pre-tax impairment charges for goodwill of $177 million ($177 million, after tax) and $331 million ($331 million, after tax) for 2007 and 2006, respectively. The pre-tax impairment charge recognized in 2007, in the Other Specialty Products segment, related to the Company's European manufacturer of heating products; in the Plumbing Products segment the charge related to a North American manufacturer of plumbing-related products. The pre-tax impairment charge recognized in 2006 in the Cabinets and Related Products segment related to the Company's European manufacturer of ready-to-assemble cabinets. These charges reflect the long-term outlook for the business units, including declining demand for certain products, as well as decreased operating profit margins.

Other indefinite-lived intangible assets were $208 million and $246 million at December 31, 2007 and 2006, respectively, and principally included registered trademarks. The Company completed its annual impairment testing of other indefinite-lived intangible assets in the fourth quarters of 2007 and 2006. In 2007, this test indicated that the registered trademark for a North American business unit in the Other Specialty Products segment in 2007 was impaired due to changes in the long-term outlook for the

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H. GOODWILL AND OTHER INTANGIBLE ASSETS – (Concluded)

business unit, particularly in the new home construction market. The Company recognized a non-cash, pre-tax impairment charge for other indefinite-lived intangible assets of $50 million ($31 million, after tax) in 2007. In 2006, this test indicated that other indefinite-lived intangible assets were not impaired.

The carrying value of the Company's definite-lived intangible assets was $115 million at December 31, 2007 (net of accumulated amortization of $67 million) and $60 million at December 31, 2006 (net of accumulated amortization of $51 million) and principally included customer relationships and non-compete agreements, with a weighted average amortization period of 14 years and 13 years in 2007 and 2006, respectively. In 2007, the Company increased its definite-lived intangible assets by $69 million primarily related to the acquisitions of Erickson Construction Company and Guy Evans, Inc. Amortization expense related to the definite-lived intangible assets was $15 million, $10 million and $22 million in 2007, 2006 and 2005, respectively.

At December 31, 2007, amortization expense related to the definite-lived intangible assets during each of the next five years was as follows: 2008 - $14 million; 2009 – $14 million; 2010 – $13 million; 2011 – $11 million; and 2012 – $9 million.

I. OTHER ASSETS

	(In Millions) At December 31	
	2007	2006
Financial investments (Note E)	$315	$379
In-store displays, net	69	72
Debenture expense	33	33
Prepaid benefit cost (Note N)	10	1
Notes receivable	7	14
Other	37	85
Total	$471	$584

In-store displays are amortized using the straight-line method over the expected useful life of three years; the Company recognized amortization expense related to in-store displays of $46 million, $55 million and $63 million in 2007, 2006 and 2005, respectively. Cash spent for displays was $43 million, $45 million and $48 million in 2007, 2006 and 2005, respectively.

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J. ACCRUED LIABILITIES

	(In Millions) At December 31	
	2007	2006
Salaries, wages and commissions	$ 226	$ 218
Insurance	217	207
Advertising and sales promotion	146	165
Warranty (Note T)	133	120
Dividends payable	85	86
Interest	72	76
Employee retirement plans	53	49
Property, payroll and other taxes	42	46
Income taxes	23	61
Litigation	6	8
Other	69	92
Total	$1,072	$1,128

K. DEBT

	(In Millions) At December 31	
	2007	2006
Notes and debentures:		
4.625%, due Aug. 15, 2007	$ –	$ 300
5.75%, due Oct. 15, 2008	100	100
5.875%, due July 15, 2012	850	850
7.125%, due Aug. 15, 2013	200	200
4.8%, due June 15, 2015	500	500
6.125%, due Oct. 3, 2016	1,000	1,000
5.85%, due Mar. 15, 2017	300	–
6.625%, due Apr. 15, 2018	114	114
7.75%, due Aug. 1, 2029	296	296
6.5%, due Aug. 15, 2032	300	300
Zero Coupon Convertible Senior Notes due 2031 (accreted value)	52	874
Floating-Rate Notes, due Mar. 12, 2010	300	–
Floating-Rate Notes, due Mar. 9, 2007	–	300
Notes payable to banks	–	–
Other	76	145
	4,088	4,979
Less: Current portion	122	1,446
Total Long-term debt	$3,966	$3,533

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K. DEBT – (Continued)

All of the notes and debentures above are senior indebtedness and, other than the 6.625% notes due 2018 and the 7.75% notes due 2029, are redeemable at the Company's option.

In July 2001, the Company issued $1.9 billion principal amount at maturity of Zero Coupon Convertible Senior Notes due 2031 ("Old Notes"), resulting in gross proceeds of $750 million. The issue price per Note was $394.45 per $1,000 principal amount at maturity, which represented a yield to maturity of 3.125% compounded semi-annually. In December 2004, the Company completed an exchange of the outstanding Old Notes for Zero Coupon Convertible Senior Notes Series B due July 2031 ("New Notes" or "Notes"). The Company will not pay interest in cash on the Notes prior to maturity, except in certain circumstances, including possible contingent interest payments that are not expected to be material. Holders of the Notes have the option to require that the Notes be repurchased by the Company on July 20, 2011 and every five years thereafter. Upon conversion of the Notes, the Company will pay the principal return, equal to the lesser of (1) the accreted value of the Notes in only cash, and (2) the conversion value, as defined, which will be settled in cash or shares of Company common stock, or a combination of both, at the option of the Company. The Notes are convertible if the average price of Company common stock for the 20 days immediately prior to the conversion date exceeds 118⅓%, declining by 1/3% each year thereafter, of the accreted value of the Notes divided by the conversion rate of 12.7317 shares for each $1,000 principal amount at maturity of the Notes. Notes also become convertible if the Company's credit rating is reduced to below investment grade, or if certain actions are taken by the Company. The Company may at any time redeem all or part of the Notes at their then accreted value.

On January 20, 2007, holders of $1.8 billion (94 percent) principal amount at maturity of the Notes required the Company to repurchase their Notes at a cash value of $825 million. As a result of this repurchase, a $93 million deferred income tax liability was paid in 2007. On October 17, 2007, the Company repurchased the remaining Old Notes for cash of $85,000. At December 31, 2007, there were outstanding $108 million principal amount at maturity of Notes, with an accreted value of $52 million, which has been included in long-term debt, as the next put option date is July 20, 2011.

During 2007, the Company also retired $300 million of floating-rate notes due March 9, 2007 and $300 million of 4.625% notes due August 15, 2007. On March 14, 2007, the Company issued $300 million of floating-rate notes due 2010; the interest rate is determined based upon the three-month LIBOR plus 30 basis points. On March 14, 2007, the Company also issued $300 million of fixed-rate 5.85% notes due 2017. These debt issuances provided net proceeds of $596 million and were in consideration of the March and August 2007 debt maturities.

At December 31, 2007, the Company had a $2.0 billion 5-Year Revolving Credit Agreement with a group of banks syndicated in the United States and internationally, which expires in February 2011. This agreement allows for borrowings denominated in U.S. dollars or European euros with interest payable based upon various floating-rate options as selected by the Company. There were no amounts outstanding under the 5-Year Revolving Credit Agreement at December 31, 2007 and 2006.

In February 2006, the Company amended the terms of the $2.0 billion 5-Year Revolving Credit Agreement; the amendment primarily affected the requirement for the Company to maintain certain levels of net worth. At December 31, 2007, the Company's net worth exceeded such requirement by $895 million. The 5-Year Revolving Credit Agreement, as amended, also contains limitations on additional borrowings; at December 31, 2007, the Company had additional borrowing capacity, subject to availability, of up to $1.9 billion.

At December 31, 2007, the maturities of long-term debt during each of the next five years were as follows: 2008 – $122 million; 2009 – $12 million; 2010 – $302 million; 2011 – $53 million; and 2012 – $873 million.

K. DEBT – (Concluded)

Interest paid was $262 million, $238 million and $246 million in 2007, 2006 and 2005, respectively.

L. MINORITY INTEREST

The Company owned 68 percent and 64 percent of Hansgrohe AG at December 31, 2007 and 2006, respectively. The aggregate minority interest, net of dividends, of $117 million and $108 million at December 31, 2007 and 2006, respectively, was recorded in deferred income taxes and other liabilities on the Company's consolidated balance sheets.

As part of the agreement relating to the Company's acquisition of an additional 37 percent equity ownership of Hansgrohe AG in December 2002 (increasing such ownership to 64 percent), certain minority shareholders of Hansgrohe AG, representing four percent of Hansgrohe AG outstanding shares, held a put option which required the Company to purchase such shares in Hansgrohe AG with Company common stock. In May 2007, the put option was exercised and the Company issued two million shares of Company common stock with a value of $56 million for the additional four percent ownership in Hansgrohe AG.

M. STOCK-BASED COMPENSATION

The Company elected to change its method of accounting for stock-based compensation and implemented the fair value method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," effective January 1, 2003. The Company used the prospective method, as defined by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment to SFAS No. 123," for determining stock-based compensation expense. Accordingly, options granted, modified or settled subsequent to January 1, 2003 have been accounted for using the fair value method and options granted prior to January 1, 2003 were accounted for using the intrinsic value method.

Effective January 1, 2006, the Company adopted SFAS No. 123R, using the Modified Prospective Application ("MPA") method. The MPA method requires the Company to recognize expense for unvested stock options that were awarded prior to January 1, 2003 through the remaining vesting periods. The MPA method did not require the restatement of prior-year information. In accordance with SFAS No. 123R, the Company utilized the shortcut method to determine the tax windfall pool associated with stock options as of the date of adoption.

The Company's 2005 Long Term Stock Incentive Plan (the "2005 Plan") replaced the 1991 Long Term Stock Incentive Plan (the "1991 Plan") in May 2005 and provides for the issuance of stock-based incentives in various forms. At December 31, 2007, outstanding stock-based incentives were in the form of long-term stock awards, stock options, phantom stock awards and stock appreciation rights. Additionally, the Company's 1997 Non-Employee Directors Stock Plan (the "1997 Plan") provides for the payment of part of the compensation to non-employee Directors in Company common stock. The 1997 Plan expired in May 2007; subsequently, compensation to non-employee Directors in Company common

M. STOCK-BASED COMPENSATION – (Continued)

stock will be made from the 2005 Plan. Pre-tax compensation expense (income) and the related income tax benefit, related to these stock-based incentives were as follows, in millions:

	2007	2006	2005
Long-term stock awards	$52	$ 52	$44
Stock options	49	46	29
Phantom stock awards and stock appreciation rights	(7)	2	2
Total	$94	$100	$75
Income tax benefit	$35	$ 37	$28

At December 31, 2007, a total of 16,158,460 shares of Company common stock were available under the 2005 Plan for the granting of stock options and other long-term stock incentive awards.

Long-Term Stock Awards

Long-term stock awards are granted to key employees and non-employee Directors of the Company and do not cause net share dilution inasmuch as the Company continues the practice of repurchasing and retiring an equal number of shares on the open market.

The Company's long-term stock award activity was as follows, shares in millions:

	2007	2006	2005
Unvested stock award shares at January 1	9	9	10
Weighted average grant date fair value	$27	$25	$23
Stock award shares granted	2	2	2
Weighted average grant date fair value	$30	$29	$36
Stock award shares vested	2	2	2
Weighted average grant date fair value	$25	$24	$21
Stock award shares forfeited	–	–	1
Weighted average grant date fair value	$28	$27	$24
Unvested stock award shares at December 31	9	9	9
Weighted average grant date fair value	$28	$27	$25

The Company measures compensation expense for stock awards at the market price of the Company's common stock at the grant date. Effective January 1, 2006, such expense is being recognized ratably over the shorter of the vesting period of the stock awards, typically 10 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. For stock awards granted prior to January 1, 2006, such expense is being recognized over the vesting period of the stock awards, typically 10 years, or for executive grantees that are, or will become, retirement-eligible during the vesting period, the expense is being recognized over five years. At December 31, 2007, the Company had remaining $12 million of unrecognized compensation expense related to stock awards granted prior to January 1, 2006 to grantees that will or have become retirement-eligible before such awards will have been fully expensed; such expense will be recognized over the next five years, or immediately upon a grantee's retirement.

At December 31, 2007 and 2006, there was $175 million and $195 million, respectively, of unrecognized compensation expense related to unvested stock awards; such awards had a weighted average remaining vesting period of seven years. There was $185 million of unrecognized compensation expense,

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M. STOCK-BASED COMPENSATION – (Continued)

which was included as a reduction of shareholders' equity, at December 31, 2005; such expense was reclassified to common stock and retained earnings on January 1, 2006 in accordance with SFAS No. 123R. At January 1, 2006, the Company estimated a forfeiture rate for long-term stock awards and applied that rate to all previously expensed stock awards; such application did not result in a change in the expense to be recorded as a cumulative effect of accounting change.

The total market value (at the vesting date) of stock award shares which vested during 2007, 2006 and 2005 was $48 million, $51 million and $60 million, respectively.

Stock Options

Stock options are granted to key employees and non-employee Directors of the Company. The exercise price equals the market price of the Company's 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 10 years after the grant date. The 2005 Plan does not permit the granting of restoration stock options, except for restoration options resulting from options previously granted under the 1991 Plan. Restoration stock options become exercisable six months from the date of grant.

The Company granted 4,862,680 of stock option shares, including restoration stock option shares, during 2007 with a grant date exercise price range of $22 to $34 per share. During 2007, 2,032,510 stock option shares were forfeited (including options that expired unexercised).

M. STOCK-BASED COMPENSATION – (Continued)

The Company's stock option activity was as follows, shares in millions:

	2007	2006	2005
Option shares outstanding at January 1	26	27	26
Weighted average exercise price	$ 26	$ 26	$ 25
Option shares granted, including restoration options	5	4	4
Weighted average exercise price	$ 30	$ 27	$ 31
Option shares exercised	3	4	2
Aggregate intrinsic value on date of exercise (A)	$26 million	$ 27 million	$ 32 million
Weighted average exercise price	$ 22	$ 25	$ 20
Option shares forfeited	2	1	1
Weighted average exercise price	$ 29	$ 30	$ 25
Option shares outstanding at December 31	26	26	27
Weighted average exercise price	$ 27	$ 26	$ 26
Weighted average remaining option term (in years)	6	6	6
Option shares vested and expected to vest at December 31	26	26	27
Weighted average exercise price	$ 27	$ 26	$ 26
Aggregate intrinsic value (A)	$ 7 million	$106 million	$124 million
Weighted average remaining option term (in years)	6	6	6
Option shares exercisable (vested) at December 31	14	15	16
Weighted average exercise price	$ 25	$ 25	$ 25
Aggregate intrinsic value (A)	$ 7 million	$ 75 million	$ 93 million
Weighted average remaining option term (in years)	5	5	4

(A) Aggregate intrinsic value is calculated using the Company's stock price at each respective date, less the exercise price (grant date price) multiplied by the number of shares.

The Company measures compensation expense for stock options using a Black-Scholes option pricing model. For stock options granted subsequent to January 1, 2006, such expense is being recognized ratably over the shorter of the vesting period of the stock options, typically five years, or the length of time until the grantee becomes retirement-eligible at age 65. The expense for unvested stock options at January 1, 2006 is based upon the grant date fair value of those options as calculated using a Black-Scholes option pricing model for pro forma disclosures under SFAS No. 123. For stock options granted prior to January 1, 2006, such expense is being recognized ratably over the vesting period of the stock options, typically five years. At December 31, 2007, the Company had $7 million of unrecognized compensation expense related to stock options granted prior to January 1, 2006 to grantees that will or have become retirement-eligible before such options will have been fully expensed; such expense will be recognized over the next three years, or immediately upon a grantee's retirement.

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M. STOCK-BASED COMPENSATION – (Continued)

At December 31, 2007 and 2006, there was $73 million and $90 million, respectively, of unrecognized compensation expense (using the Black-Scholes option pricing model at the grant date) related to unvested stock options; such options had a weighted average remaining vesting period of three years. At January 1, 2006, the Company estimated a forfeiture rate for stock options and applied that rate to all previously expensed stock options; such application did not result in a change in the expense to be recorded as a cumulative effect of accounting change.

The Company received cash of $60 million, $28 million and $33 million in 2007, 2006 and 2005, respectively, for the exercise of stock options.

The weighted average grant date fair value of option shares granted and the assumptions used to estimate those values using a Black-Scholes option pricing model, was as follows:

	2007	2006	2005
Weighted average grant date fair value	$ 8.92	$ 8.24	$ 10.33
Risk-free interest rate	4.74%	4.89%	4.10%
Dividend yield	3.0%	3.1%	2.3%
Volatility factor	31.8%	34.0%	35.8%
Expected option life	7 years	7 years	7 years

The following table summarizes information for stock option shares outstanding and exercisable at December 31, 2007, shares in millions:

Option Shares Outstanding				Option Shares Exercisable	
Range of Prices	Number of Shares	Weighted Average Remaining Option Term	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$20-23	7	4 Years	$21	6	$21
$24-28	7	7 Years	$27	4	$27
$29-32	12	8 Years	$30	4	$30
$33-38	–	5 Years	$34	–	$35
$20-38	26	6 Years	$27	14	$25

Phantom Stock Awards and Stock Appreciation Rights ("SARs")

The Company grants phantom stock awards and SARs to certain non-U.S. employees.

Phantom stock awards are linked to the value of the Company's common stock on the date of grant and are settled in cash upon vesting, typically over 10 years. The Company accounts for phantom stock awards as liability-based awards; the compensation expense is initially measured as the market price of the Company's common stock at the grant date and is recognized over the vesting period. The liability is remeasured and adjusted at the end of each reporting period until the awards are fully-vested and paid to the employees. The Company recognized (income) expense of $(2) million and $1 million related to the valuation of phantom stock awards for 2007 and 2006, respectively. In 2007 and 2006, the Company granted 130,000 shares and 175,000 shares, respectively, of phantom stock awards with an aggregate fair value of $4 million and $5 million, respectively, and paid $4 million of cash in both years to settle phantom stock awards.

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M. STOCK-BASED COMPENSATION – (Concluded)

SARs are linked to the value of the Company's common stock on the date of grant and are settled in cash upon exercise. On January 1, 2006, the Company changed its method of accounting for SARs, in accordance with the provisions of SFAS No. 123R, from the intrinsic value method to the fair value method. The fair value method requires outstanding SARs to be classified as liability-based awards and valued using a Black-Scholes option pricing model at the grant date; such fair value is recognized as compensation expense over the vesting period, typically five years. The liability is remeasured and adjusted at the end of each reporting period until the SARs are exercised and payment is made to the employees or the SARs expire. As a result of implementing this change, during 2006, the Company recognized expense of $3 million (net of income tax benefit of $2 million) as a cumulative effect of accounting change, net. The Company recognized (income) expense of $(5) million and $400,000 related to the valuation of SARs for 2007 and 2006, respectively. During 2007 and 2006, the Company granted SARs for 521,100 shares and 422,300 shares, respectively, with an aggregate fair value of $4 million in both years.

Information related to phantom stock awards and SARs was as follows, in millions:

	Phantom Stock Awards		Stock Appreciation Rights	
	At December 31		At December 31	
	2007	2006	2007	2006
Accrued compensation cost liability	$9	$15	$3	$9
Unrecognized compensation cost	$5	$ 9	$2	$5
Equivalent common shares	1	1	2	2

N. EMPLOYEE RETIREMENT PLANS

The Company sponsors qualified defined-benefit and defined-contribution retirement plans for most of its employees. In addition to the Company's qualified defined-benefit pension plans, the Company has unfunded non-qualified defined-benefit pension plans covering certain employees, which provide for benefits in addition to those provided by the qualified pension plans. Substantially all salaried employees participate in non-contributory defined-contribution retirement plans, to which payments are determined annually by the Organization and Compensation Committee of the Board of Directors. Aggregate charges to earnings under the Company's defined-benefit and defined-contribution retirement plans were $44 million and $47 million in 2007, $54 million and $44 million in 2006 and $51 million and $42 million in 2005, respectively.

During 2006, the Company implemented SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)," ("SFAS No. 158"). Among other things, SFAS No. 158 requires companies to prospectively recognize a net liability or asset and to report the funded status of their defined-benefit pension and other post-retirement benefit plans on their balance sheets, with an offsetting adjustment to accumulated other comprehensive income; such recognition did not affect the Company's consolidated statements of income.

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N. EMPLOYEE RETIREMENT PLANS – (Continued)

Changes in the projected benefit obligation and fair value of plan assets, and the funded status of the Company's defined-benefit pension plans were as follows, in millions:

	2007		2006	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Changes in projected benefit obligation:				
Projected benefit obligation at January 1	$ 780	$ 144	$ 771	$ 143
Service cost	17	2	18	3
Interest cost	44	8	41	7
Participant contributions	1	–	1	—
Plan amendments	—	1	—	3
Actuarial (gain) loss, net	(71)	(12)	(28)	(7)
Foreign currency exchange	11	—	21	—
Settlements	—	—	(6)	—
Disposition	—	—	(7)	—
Benefit payments	(34)	(5)	(31)	(5)
Projected benefit obligation at December 31	$ 748	$ 138	$ 780	$ 144
Changes in fair value of plan assets:				
Fair value of plan assets at January 1	$ 594	$ —	$ 540	$ —
Actual return on plan assets	36	—	57	—
Foreign currency exchange	2	—	10	—
Company contributions	35	5	31	5
Participant contributions	1	—	1	—
Settlements	—	—	(6)	—
Disposition	—	—	(7)	—
Expenses	—	—	(1)	—
Benefit payments	(34)	(5)	(31)	(5)
Fair value of plan assets at December 31	$ 634	$ —	$ 594	$ —
Funded status at December 31:	$(114)	$(138)	$(186)	$(144)

Amounts in the Company's consolidated balance sheets were as follows, in millions:

	At December 31, 2007		At December 31, 2006	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Other assets	$ 10	$ —	$ 1	$ —
Accrued liabilities	(3)	(8)	(2)	(8)
Deferred income taxes and other	(121)	(130)	(185)	(136)
Total net liability	$(114)	$(138)	$(186)	$(144)

GA 000181

N. EMPLOYEE RETIREMENT PLANS – (Continued)

Amounts in accumulated other comprehensive income before income taxes were as follows, in millions:

	At December 31, 2007		At December 31, 2006	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Net loss	$85	$12	$149	$25
Net transition obligation	1	—	1	—
Net prior service cost	3	5	2	5
Total	$89	$17	$152	$30

Information for defined-benefit pension plans with an accumulated benefit obligation in excess of plan assets was as follows, in millions:

	At December 31			
	2007		2006	
	Qualified	Non-Qualified	Qualified	Non-Qualified
Projected benefit obligation	$283	$138	$669	$144
Accumulated benefit obligation	$282	$131	$613	$135
Fair value of plan assets	$191	$ —	$481	$ —

The projected benefit obligation was in excess of plan assets for all except two of the Company's qualified defined-benefit pension plans at December 31, 2007 and for all except one of the Company's qualified defined-benefit pension plans at December 31, 2006.

Net periodic pension cost for the Company's defined-benefit pension plans was as follows, in millions:

	2007		2006		2005	
	Qualified	Non-Qualified	Qualified	Non-Qualified	Qualified	Non-Qualified
Service cost	$ 17	$ 2	$ 19	$ 3	$ 18	$ 3
Interest cost	44	8	41	7	40	7
Expected return on plan assets	(49)	—	(45)	—	(42)	—
Recognized prior service cost	—	1	1	2	1	2
Recognized curtailment (gain) loss	—	—	1	(1)	—	—
Recognized settlement loss	—	—	1	—	—	—
Recognized net loss	5	1	8	4	5	5
Net periodic pension cost	$ 17	$12	$ 26	$15	$ 22	$17

The Company expects to recognize $2 million and $1 million of pre-tax net loss and prior service cost, respectively, from accumulated other comprehensive income into net periodic pension cost in 2008 related to its defined-benefit pension plans.

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N. EMPLOYEE RETIREMENT PLANS – (Continued)

Plan Assets

The Company's qualified defined-benefit pension plan weighted average asset allocation, which is based upon fair value, was as follows:

	At December 31	
	2007	2006
Equity securities	67%	69%
Debt securities	12%	4%
Other	21%	27%
Total	100%	100%

The investment objectives of the Company's qualified defined-benefit pension plans are: 1) to earn a return, net of fees, greater than or equal to the expected long-term rate of return on plan assets; 2) to diversify the portfolio among various asset classes with the goal of reducing volatility of return and reducing principal risk; and 3) to maintain liquidity sufficient to meet Plan obligations. Long-term target allocations are: equity securities (80%), debt securities (10%) and other investments (10%).

Plan assets included 1.4 million shares of Company common stock valued at $31 million and $42 million at December 31, 2007 and 2006, respectively.

Assumptions

Major assumptions used in accounting for the Company's defined-benefit pension plans were primarily as follows:

	December 31		
	2007	2006	2005
Discount rate for obligations	6.25%	5.50%	5.25%
Expected return on plan assets	8.25%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%
Discount rate for net periodic pension cost	5.50%	5.25%	5.75%

The discount rate for obligations was based upon the expected duration of each defined-benefit pension plan's liabilities matched to the December 31, 2007 Citigroup Pension Discount Curve. Such rates for the Company's defined-benefit pension plans ranged from 5.00 percent to 6.50 percent, with the most significant portion of the liabilities having a discount rate for obligations of 6.25 percent or higher at December 31, 2007.

The Company determined the expected long-term rate of return on plan assets by reviewing an analysis of expected and historical rates of return of various asset classes based upon the current and long-term target asset allocation of the plan assets. The measurement date used to determine the defined-benefit pension expense was primarily December 31.

Other

The Company sponsors certain post-retirement benefit plans that provide medical, dental and life insurance coverage for eligible retirees and dependents in the United States based upon age and length of service. The aggregate present value of the unfunded accumulated post-retirement benefit obligation was $9 million at both December 31, 2007 and 2006.

N. EMPLOYEE RETIREMENT PLANS – (Concluded)

Cash Flows

At December 31, 2007, the Company expected to contribute approximately $11 million to its qualified defined-benefit pension plans in 2008. The Company also expected to pay benefits of $3 million and $8 million to participants of its unfunded qualified and non-qualified defined-benefit pension plans, respectively, in 2008.

At December 31, 2007, the benefits expected to be paid in each of the next five years, and in aggregate for the five years thereafter, relating to the Company's defined-benefit pension plans, were as follows, in millions:

	Qualified Plans	Non-Qualified Plans
2008	$ 32	$ 8
2009	$ 34	$10
2010	$ 35	$10
2011	$ 36	$11
2012	$ 37	$11
2013-2017	$218	$59

O. SHAREHOLDERS' EQUITY

In July 2007, the Company's Board of Directors authorized the repurchase for retirement of up to 50 million shares of the Company's common stock in open-market transactions or otherwise, replacing a previous Board of Directors authorization established in 2006. At December 31, 2007, the Company had remaining authorization to repurchase up to 41 million shares of its common stock in open-market transactions or otherwise. The Company repurchased and retired 31 million common shares in 2007, 29 million common shares in 2006 and 31 million common shares in 2005 for cash aggregating $857 million, $854 million and $986 million in 2007, 2006 and 2005, respectively.

On the basis of amounts paid (declared), cash dividends per common share were $.91 ($.92) in 2007, $.86 ($.88) in 2006 and $.78 ($.80) in 2005, respectively. In 2007, the Company increased its quarterly cash dividend by five percent to $.23 per common share from $.22 per common share.

Accumulated Other Comprehensive Income

The Company's total comprehensive income was as follows, in millions:

	2007	2006	2005
Net income	$386	$488	$ 940
Other comprehensive income:			
Cumulative translation adjustments	143	208	(251)
Unrealized loss on marketable securities, net	(7)	(10)	(10)
Prior service cost and net loss, net	49	—	—
Minimum pension liability, net	—	56	(38)
Total	$571	$742	$ 641

The unrealized loss on marketable securities, net, is net of income tax benefit of $5 million, $6 million and $5 million for 2007, 2006 and 2005, respectively. The prior service cost and net loss, net, is net of income tax of $27 million for 2007. The minimum pension liability, net, is net of income tax expense (benefit) of $33 million and $(23) million for 2006 and 2005, respectively.

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O. SHAREHOLDERS' EQUITY – (Concluded)

The components of accumulated other comprehensive income were as follows, in millions:

	At December 31	
	2007	2006
Cumulative translation adjustments	$770	$ 627
Unrealized (loss) gain on marketable securities, net	(4)	3
Unrecognized prior service cost and net loss, net	(69)	(118)
Accumulated other comprehensive income	$697	$ 512

The unrealized (loss) gain on marketable securities, net, is reported net of income tax expense (benefit) of $(3) million and $2 million at December 31, 2007 and 2006, respectively. The unrecognized prior service cost and net loss, net, is reported net of income tax benefit of $39 million and $66 million at December 31, 2007 and 2006, respectively.

The realized gains, net, on marketable securities of $3 million, net of tax effect, for both 2007 and 2006 were included in determining net income and were reclassified from accumulated other comprehensive income.

P. SEGMENT INFORMATION

The Company's reportable segments are as follows:

Cabinets and Related Products – principally includes assembled and ready-to-assemble kitchen and bath cabinets; home office workstations; entertainment centers; storage products; bookcases; and kitchen utility products.

Plumbing Products – principally includes faucets; plumbing fittings and valves; showerheads and hand showers; bathtubs and shower enclosures; and spas.

Installation and Other Services – principally includes the sale, installation and distribution of insulation and other building products.

Decorative Architectural Products – principally includes paints and stains; and door, window and other hardware.

Other Specialty Products – principally includes windows, window frame components and patio doors; staple gun tackers, staples and other fastening tools; and hydronic radiators and heat convectors.

The above products and services are sold and provided to the home improvement and new home construction markets through mass merchandisers, hardware stores, home centers, homebuilders, distributors and other outlets for consumers and contractors.

The Company's operations are principally located in North America and Europe. The Company's country of domicile is the United States of America.

Corporate assets consist primarily of real property, equipment, cash and cash investments and other investments.

The Company's segments are based upon similarities in products and services and represent the aggregation of operating units, for which financial information is regularly evaluated by the Company's corporate operating executives in determining resource allocation and assessing performance and is periodically reviewed by the Board of Directors. Accounting policies for the segments are the same as those for the Company. The Company primarily evaluates performance based upon operating profit and, other than general corporate expense, allocates specific corporate overhead to each segment. Income regarding the Behr litigation settlement has also been excluded from the evaluation of segment operating profit.

P. SEGMENT INFORMATION — (Continued)

Information about the Company by segment and geographic area was as follows, in millions:

	Net Sales(1)(2)(3)(4)(5)			Operating Profit(5)(9)			Assets at December 31(6)(10)		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
The Company's operations by segment were:									
Cabinets and Related Products	$ 2,829	$ 3,286	$ 3,324	$ 336	$ 122	$ 515	$ 1,769	$ 1,860	$ 2,017
Plumbing Products	3,449	3,296	3,176	265	280	367	2,320	2,400	2,206
Installation and Other Services	2,615	3,158	3,063	176	344	382	2,622	2,488	2,496
Decorative Architectural Products	1,771	1,717	1,612	383	371	275	916	1,007	976
Other Specialty Products	1,106	1,261	1,325	(28)	225	229	1,920	2,089	2,128
Total	$11,770	$12,718	$12,500	$1,132	$1,342	$1,768	$ 9,547	$ 9,844	$ 9,823
The Company's operations by geographic area were:									
North America	$ 9,271	$10,537	$10,440	$1,008	$1,417	$1,567	$ 7,089	$ 7,390	$ 7,443
International, principally Europe	2,499	2,181	2,060	124	(75)	201	2,458	2,454	2,380
Total, as above	$11,770	$12,718	$12,500	1,132	1,342	1,768	9,547	9,844	9,823
General corporate expense, net (7)				(181)	(203)	(192)			
Gains on sale of corporate fixed assets, net				8	—	8			
Income regarding litigation settlement(8)				—	1	6			
Operating profit, as reported				959	1,140	1,590			
Other income (expense), net				(189)	(226)	(165)			
Income from continuing operations before income taxes, minority interest and cumulative effect of accounting change, net				$ 770	$ 914	$1,425			
Corporate assets							1,360	2,481	2,736
Total assets							$10,907	$12,325	$12,559

	Property Additions (10)			Depreciation and Amortization (5)		
	2007	2006	2005	2007	2006	2005
The Company's operations by segment were:						
Cabinets and Related Products	$ 70	$169	$ 77	$ 67	$ 60	$ 58
Plumbing Products	63	101	76	79	89	71
Installation and Other Services	70	32	15	27	24	26
Decorative Architectural Products	11	17	47	18	17	18
Other Specialty Products	29	71	55	39	38	37
	243	390	270	230	228	210
Unallocated amounts, principally related to corporate assets	4	11	9	16	14	24
Assets of dispositions (acquisitions), net	—	—	3	—	—	—
Total	$247	$401	$282	$246	$242	$234

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P. SEGMENT INFORMATION – (Concluded)

(1) Included in net sales were export sales from the U.S. of $291 million, $253 million and $244 million in 2007, 2006 and 2005, respectively.

(2) Intra-company sales between segments represented approximately two percent of net sales in both 2007 and 2006 and one percent of net sales in 2005.

(3) Included in net sales were sales to one customer of $2,403 million, $2,547 million and $2,654 million in 2007, 2006 and 2005, respectively. Such net sales were included in the following segments: Cabinets and Related Products, Plumbing Products, Decorative Architectural Products and Other Specialty Products.

(4) Net sales from the Company's operations in the U.S. were $8,910 million, $10,188 million and $10,120 million in 2007, 2006 and 2005, respectively.

(5) Net sales, operating profit and depreciation and amortization expense for 2007, 2006 and 2005 excluded the results of businesses reported as discontinued operations in 2007, 2006 and 2005.

(6) Long-lived assets of the Company's operations in the U.S. and Europe were $4,987 million and $1,477 million, $4,959 million and $1,510 million, and $4,892 million and $1,610 million at December 31, 2007, 2006 and 2005, respectively.

(7) General corporate expense included those expenses not specifically attributable to the Company's segments.

(8) The income regarding litigation settlement related to the Company's subsidiary, Behr Process Corporation, which is included in the Decorative Architectural Products segment.

(9) Included in segment operating profit for 2007 were impairment charges for goodwill and other intangible assets as follows: Plumbing Products – $69 million; and Other Specialty Products – $158 million. Included in segment operating profit for 2006 were impairment charges for goodwill as follows: Cabinets and Related Products – $316 million; and Plumbing Products – $1 million. Included in segment operating profit for 2005 were impairment charges for goodwill as follows: Plumbing Products – $7 million; and Other Specialty Products – $36 million. The impairment charges for goodwill were principally related to certain of the Company's European businesses.

(10) Segment assets excluded the assets of businesses reported as discontinued operations.

Q. OTHER INCOME (EXPENSE), NET

Other, net, which is included in other income (expense), net, was as follows, in millions:

	2007	2006	2005
Income from cash and cash investments	$37	$ 44	$ 35
Other interest income	3	2	6
Income from financial investments, net (Note E)	49	44	115
Other items, net	2	25	(29)
Total other, net	$91	$115	$127

Other items, net, included realized foreign currency transaction gains (losses) of $9 million, $14 million and $(25) million in 2007, 2006 and 2005, respectively, as well as other miscellaneous items.

R. INCOME TAXES

	(In Millions) 2007	2006	2005
Income from continuing operations before income taxes, minority interest and cumulative effect of accounting change, net:			
U.S.	$606	$969	$1,218
Foreign	164	(55)	207
	$770	$914	$1,425
Provision (benefit) for income taxes on income from continuing operations before minority interest and cumulative effect of accounting change, net:			
Currently payable:			
U.S. Federal	$263	$342	$ 346
State and local	33	44	37
Foreign	81	66	80
Deferred:			
U.S. Federal	(18)	(51)	52
State and local	(11)	(3)	6
Foreign	(12)	11	(7)
	$336	$409	$ 514
Deferred tax assets at December 31:			
Receivables	$ 21	$ 21	
Inventories	32	31	
Other assets, including stock-based compensation	119	102	
Accrued liabilities	122	163	
Long-term liabilities	120	106	
Foreign tax credit carryforward	45	61	
	459	484	
Deferred tax liabilities at December 31:			
Property and equipment	308	288	
Investment in foreign subsidiaries	19	13	
Intangibles	374	352	
Other, principally notes payable	52	161	
	753	814	
Net deferred tax liability at December 31	$294	$330	

At December 31, 2007 and 2006, the net deferred tax liability consisted of net short-term deferred tax assets included in prepaid expenses and other of $216 million and $137 million, respectively, and net long-term deferred tax liabilities included in deferred income taxes and other of $510 million and $467 million, respectively.

The Company made dividend distributions of accumulated earnings from certain of its foreign subsidiaries from 2004 to 2007. A substantial portion of these dividend distributions generated significant foreign tax credits that were used to offset the majority of the U.S. tax on the dividend distributions and resulted in a $45 million and $61 million foreign tax credit carryforward at December 31, 2007 and 2006, respectively. The Company believes that the foreign tax credit carryforward will be utilized before the 10-year carryforward periods, from December 31, 2014 to December 31, 2016, expire principally with

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R. INCOME TAXES — (Continued)

identified potential sources of future income taxed in foreign jurisdictions at rates less than the present U.S. Federal rate of 35 percent; therefore, a valuation allowance was not required at December 31, 2007 and 2006.

A reconciliation of the U.S. Federal statutory rate to the provision for income taxes on income from continuing operations before minority interest and cumulative effect of accounting change, net, was as follows:

	2007	2006	2005
U.S. Federal statutory rate	35%	35%	35%
State and local taxes, net of U.S. Federal tax benefit	2	3	2
Lower taxes on foreign earnings	(2)	(1)	(1)
Change in U.S. and foreign taxes on distributed and undistributed foreign earnings, including the impact of foreign tax credit	5	(3)	—
Goodwill impairment charges providing no tax benefit	8	12	1
Domestic production deduction	(1)	(1)	(1)
Change in foreign tax rates	(2)	—	—
Other, net	(1)	—	—
Effective tax rate	44%	45%	36%

Income taxes paid were $363 million, $496 million and $457 million in 2007, 2006 and 2005, respectively.

During 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109," ("FIN No. 48"). FIN No. 48 allows the recognition of only those tax benefits that the Company estimates have a greater than 50 percent likelihood of being sustained upon examination by the taxing authorities. FIN No. 48 also provides guidance on financial statement classification and disclosure, and the accounting for interest, penalties, interim periods and transition.

Historically, the Company has established reserves for tax contingencies in accordance with SFAS No. 5, "Accounting for Contingencies," ("SFAS No. 5"). Under this standard, accounting reserves for tax contingencies are established when it is probable that an additional tax may be owed and the amount can be reasonably estimated. FIN No. 48 establishes a threshold for recognizing accounting reserves for income tax contingencies on uncertain tax positions lower than the threshold under SFAS No. 5. Therefore, as a result of adopting FIN No. 48, the Company has increased its accounting reserves for income tax contingencies (referred to by FIN No. 48 as "unrecognized tax benefits") to $91 million as of January 1, 2007, the date of adoption. If recognized, $62 million, net of any U.S. Federal tax benefit, would affect the Company's effective tax rate. The cumulative effect of adopting FIN No. 48 resulted in a reduction to beginning retained earnings of $26 million, net of any U.S. Federal tax benefit, as of January 1, 2007, and the majority of the Company's unrecognized tax benefits were reclassified from current to non-current liabilities in accordance with the provisions of FIN No. 48.

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R. INCOME TAXES – (Concluded)

A reconciliation of the beginning and ending amount of unrecognized tax benefits, including related interest and penalties, is as follows:

	(In Millions)		
	Unrecognized Tax Benefits	Interest and Penalties	Total
Balance at January 1, 2007	$ 91	$19	$110
Current year tax positions:			
Additions	13	—	13
Reductions	(1)	—	(1)
Prior year tax positions:			
Additions	6	—	6
Reductions	(21)	—	(21)
Settlements with tax authorities	(11)	(2)	(13)
Lapse of applicable statute of limitations	(2)	—	(2)
Interest and penalties recognized in income tax expense	—	2	2
Effect of exchange rate changes	1	—	1
Balance at December 31, 2007	$ 76	$19	$ 95

If recognized, $50 million of the unrecognized tax benefits at December 31, 2007, net of any U.S. Federal tax benefit, would affect the Company's effective tax rate.

At December 31, 2007, the total unrecognized tax benefits, including related interest and penalties, is recorded in deferred income taxes and other.

The Company files income tax returns in the U.S. Federal jurisdiction, and various local, state and foreign jurisdictions. Beginning with the 2006 consolidated U.S. Federal income tax return, the Company has been selected by the Internal Revenue Service ("IRS") to participate in the Compliance Assurance Program ("CAP"). CAP is a real-time audit of the U.S. Federal income tax return that allows the IRS, working in conjunction with the Company, to determine tax return compliance with the U.S. Federal tax law prior to filing the return. This program provides the Company with greater certainty about its tax liability for a given year within months, rather than years, of filing its annual tax return and greatly reduces the need for recording U.S. Federal unrecognized tax benefits. The IRS has completed their examination of the Company's consolidated U.S. Federal tax returns through 2006. With few exceptions, the Company is no longer subject to state or foreign income tax examinations on filed returns for years before 2000.

The Company does not anticipate that it is reasonably possible that any material increase or decrease in its liability for unrecognized tax benefits will occur within the next twelve months.

S. EARNINGS PER COMMON SHARE

Reconciliations of the numerators and denominators used in the computations of basic and diluted earnings per common share were as follows, in millions:

	2007	2006	2005
Numerator (basic and diluted):			
Income from continuing operations before cumulative effect of accounting change, net	$397	$478	$889
(Loss) income from discontinued operations, net	(11)	13	51
Cumulative effect of accounting change, net	—	(3)	—
Net income	$386	$488	$940
Denominator:			
Basic common shares (based on weighted average)	369	394	422
Add:			
Contingent common shares	3	5	4
Stock option dilution	1	1	4
Diluted common shares	373	400	430

At December 31, 2007, 2006 and 2005, the Company did not include any common shares related to the Zero Coupon Convertible Senior Notes ("Notes") in the calculation of diluted earnings per common share, as the price of the Company's common stock at December 31, 2007, 2006 and 2005 did not exceed the equivalent accreted value of the Notes.

Additionally, 19 million common shares, 16 million common shares and 13 million common shares for 2007, 2006 and 2005, respectively, related to stock options were excluded from the computation of diluted earnings per common share due to their antidilutive effect.

Common shares outstanding included on the Company's balance sheet and for the calculation of earnings per common share do not include unvested stock awards (nine million common shares at both December 31, 2007 and 2006); shares outstanding for legal requirements included all common shares that have voting rights (including unvested stock awards).

T. OTHER COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to lawsuits and pending or asserted claims with respect to matters generally arising in the ordinary course of business.

Early in 2003, a suit was brought against the Company and a number of its insulation installation companies in the federal court in Atlanta, Georgia, alleging that certain practices violate provisions of federal and state antitrust laws. The plaintiff publicized the lawsuit with a press release and stated in that release that the U.S. Department of Justice was investigating the business practices of the Company's insulation installation companies. Although the Company was unaware of any investigation at that time, the Company was later advised that an investigation had been commenced but was subsequently closed without any enforcement action recommended. Two additional lawsuits were subsequently brought in Virginia making similar claims under the antitrust laws. Both of these lawsuits have since been dismissed without any payment or requirement for any change in business practices. During the second half of 2004, the same counsel who commenced the initial action in Atlanta filed six additional lawsuits on

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T. OTHER COMMITMENTS AND CONTINGENCIES — (Continued)

behalf of several of Masco's competitors in the insulation installation business. The plaintiffs then dismissed all of these lawsuits and, represented by the same counsel, filed another action in the same federal court as a putative class action against the Company, a number of its insulation installation companies and certain of their suppliers. All of the Company's suppliers, who are co-defendants in this lawsuit, have settled this case. This suit currently seeks class representation for residential insulation contractors (other than the defendants and their affiliates) that have directly purchased fiberglass insulation suitable for residential installation from certain insulation manufacturers. The Company is opposing certification of this lawsuit which seeks to proceed on a class representation basis. Two additional lawsuits, seeking class action status and alleging anticompetitive conduct, were filed against the Company and a number of its insulation suppliers. One of these lawsuits was filed in a Florida state court and has been dismissed by the court with prejudice. The other lawsuit was filed in federal court in northern California and was recently transferred to federal court in Atlanta, Georgia. The Company is vigorously defending these remaining cases, including opposing class certification of the direct purchasers of insulation who are competitors of the Company and who constitute the purported class in one such case, and California indirect purchasers of insulation who are either consumers or builders and who constitute the purported class in the other such case. Based upon the advice of its outside counsel, the Company believes that the conduct of the Company and its insulation installation companies, which has been the subject of the above-described lawsuits, has not violated any antitrust laws. There cannot, however, be any assurance that the Company will ultimately prevail in the remaining lawsuits or, if unsuccessful, that the ultimate liability would not be material. The Company is unable at this time to reliably estimate any potential liability which might occur from an adverse judgment but does not believe that any adverse judgment would have a material adverse effect on its businesses or the methods used by its insulation installation companies in doing business.

In February 2003, a suit was served upon the Company's subsidiary, Milgard Manufacturing, in the Solano County, California Superior Court, alleging design defects in certain of Milgard's aluminum windows. The complaint requests class action status for all owners of homes in California in which the windows are installed, and seeks replacement costs and other damages. Milgard denies that the windows are defective and is vigorously defending the case. In August 2006 the trial court denied plaintiffs' motion for class certification. Plaintiffs filed a notice of appeal to the California Court of Appeals. Based upon the advice of its outside counsel, Milgard believes that the trial court ruling should be affirmed by the appellate court. The Company believes that it will not incur material liability as a result of this lawsuit.

In 2004, the Company learned that European governmental authorities were investigating possible anticompetitive business practices relating to the plumbing and heating industries in Europe. The investigations involve a number of European companies, including certain of the Company's European manufacturing divisions and a number of other large businesses. As part of its broadened governance activities, the Company, with the assistance of its outside counsel, completed a review of the competition practices of its European divisions, including those in the plumbing and heating industries, and the Company is cooperating fully with the European governmental authorities. Several private antitrust lawsuits have been filed in the United States as putative class actions against, among others, the Company and certain of the other companies being investigated relating to the defendants' plumbing operations. These appear to be an outgrowth of the investigations being conducted by European governmental authorities. These lawsuits have been dismissed, however, the Company has been notified that a notice of appeal has been filed in one of these lawsuits. Based upon the advice of its outside counsel, the review of the competition practices of its European divisions referred to above and other factors, the Company believes that it will not incur material liability as a result of the matters that are the subject of these investigations.

T. OTHER COMMITMENTS AND CONTINGENCIES — (Continued)

Warranty

Certain of the Company's products and product finishes and services are covered by a warranty to be free from defects in material and workmanship for periods ranging from one year to the life of the product. At the time of sale, the Company accrues a warranty liability for estimated costs to provide products, parts or services to repair or replace products in satisfaction of warranty obligations. The Company's estimate of costs to service its warranty obligations is based upon historical experience and expectations of future conditions. To the extent that the Company experiences any changes in warranty claim activity or costs associated with servicing those claims, its warranty liability is adjusted accordingly.

Changes in the Company's warranty liability were as follows, in millions:

	2007	2006
Balance at January 1	$120	$105
Accruals for warranties issued during the year	56	69
Accruals related to pre-existing warranties	16	7
Settlements made (in cash or kind) during the year	(57)	(62)
Other, net (including currency translation)	(2)	1
Balance at December 31	$133	$120

Acquisition-Related Commitments

The Company, as part of certain acquisition agreements, provided for the payment of additional consideration in either cash or Company common stock, contingent upon whether certain conditions are met, including the operating performance of the acquired business and the price of the Company's common stock. At December 31, 2007, the Company had additional consideration payable in cash of $10 million contingent upon the operating performance of the acquired businesses.

Investments

With respect to the Company's investments in private equity funds, the Company had, at December 31, 2007, commitments to contribute up to $49 million of additional capital to such funds representing the Company's aggregate capital commitment to such funds less capital contributions made to date. The Company is contractually obligated to make additional capital contributions to certain of its private equity funds upon receipt of a capital call from the private equity fund. The Company has 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 the Company's investment in the private equity fund when paid.

Residual Value Guarantees

The Company has residual value guarantees resulting from operating leases, primarily related to certain of the Company's trucks and other vehicles, in the Installation and Other Services segment. The operating leases are generally for a minimum term of 24 months and are renewable monthly after the initial term. After the end of the initial term, if the Company cancels the leases, the Company must pay the lessor the difference between the guaranteed residual value and the fair market value of the related vehicles. The value of lease-related guarantees, including the obligation payable under the residual value guarantees, assuming the fair value at lease termination is zero, was approximately $88 million at December 31, 2007.

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T. OTHER COMMITMENTS AND CONTINGENCIES – (Concluded)

For all operating leases that contain residual value guarantee provisions (principally related to vehicles), the Company calculates the amount due under the guarantees and compares such amount to the fair value of the leased assets. If the amount payable under the residual value guarantee exceeds the fair value at lease termination, the Company would record a liability equal to such excess with a corresponding charge to earnings. At December 31, 2007, the estimated fair market value exceeded the amount payable under the residual value guarantees and no liability was recorded.

Other Matters

The Company enters into contracts, which include reasonable and customary indemnifications that are standard for the industries in which it operates. Such indemnifications include customer claims against builders for issues relating to the Company's products and workmanship. In conjunction with divestitures and other transactions, the Company occasionally provides reasonable and customary indemnifications relating to various items including: the enforceability of trademarks; legal and environmental issues; provisions for sales returns; and asset valuations. The Company has never had to pay a material amount related to these indemnifications and evaluates the probability that amounts may be incurred and appropriately records an estimated liability when probable.

U. SUBSEQUENT EVENT

The Company reviews its business portfolio on an ongoing basis as part of its corporate strategic planning and has determined that several of its European business units are not core to the Company's long-term growth strategy and, accordingly, has embarked on a plan of disposition. These business units had combined 2007 net sales in excess of $270 million and aggregate operating profit of $13 million (excluding an impairment charge for goodwill of $108 million), or an operating loss of $(95) million, including the impairment charge for goodwill. The Company expects proceeds from the dispositions to exceed $140 million. The dispositions are expected to be completed within the next twelve months.

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V. INTERIM FINANCIAL INFORMATION (UNAUDITED)

	Total Year	(In Millions, Except Per Common Share Data) Quarters Ended December 31	September 30	June 30	March 31
2007:					
Net sales	$11,770	$2,698	$3,059	$3,148	$2,865
Gross profit	$ 3,211	$ 690	$ 862	$ 907	$ 752
Income (loss) from continuing operations	$ 397	$ (140)	$ 209	$ 186	$ 142
Net income (loss)	$ 386	$ (151)	$ 205	$ 189	$ 143
Earnings (loss) per common share:					
Basic:					
Income (loss) from continuing operations	$ 1.08	$ (.39)	$ .57	$ .50	$ .37
Net income (loss)	$ 1.05	$ (.42)	$ .56	$ .51	$ .37
Diluted:					
Income (loss) from continuing operations	$ 1.06	$ (.39)	$ .57	$ .50	$ .37
Net income (loss)	$ 1.03	$ (.42)	$ .56	$ .51	$ .37
2006:					
Net sales	$12,718	$2,931	$3,279	$3,354	$3,154
Gross profit	$ 3,506	$ 740	$ 919	$ 976	$ 871
Income (loss) from continuing operations before cumulative effect of accounting change, net	$ 478	$ (169)	$ 225	$ 215	$ 207
Net income (loss)	$ 488	$ (187)	$ 252	$ 219	$ 204
Earnings (loss) per common share:					
Basic:					
Income (loss) from continuing operations before cumulative effect of accounting change, net	$ 1.21	$ (.44)	$ .58	$ .54	$ .51
Net income (loss)	$ 1.24	$ (.49)	$ .65	$ .55	$ .50
Diluted:					
Income (loss) from continuing operations before cumulative effect of accounting change, net	$ 1.20	$ (.44)	$ .57	$ .53	$ .50
Net income (loss)	$ 1.22	$ (.49)	$ .64	$ .54	$ .50

Earnings (loss) per common share amounts for the four quarters of 2007 and 2006 may not total to the earnings per common share amounts for the years ended December 31, 2007 and 2006 due to the timing of common stock repurchases. The first quarters of 2007 and 2006 have been restated to reflect the 2007 discontinued operation.

Fourth quarter 2007 loss from continuing operations and net loss include non-cash impairment charges for goodwill and other intangible assets of $208 million after tax ($227 million pre-tax). Income from continuing operations and net income include after-tax impairment charges for financial investments of $7 million ($10 million pre-tax) and $8 million ($12 million pre-tax) in the second and third quarters of 2007, respectively. Net income for 2007 includes after-tax (loss) income, net, related to

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V. INTERIM FINANCIAL INFORMATION (UNAUDITED) – (Concluded)

discontinued operations of $1 million ($1 million pre-tax), $3 million ($4 million pre-tax), $(4) million ($(4) million pre-tax) and $(11) million ($(9) million pre-tax) in the first, second, third and fourth quarters of 2007, respectively.

Fourth quarter 2006 loss from continuing operations before cumulative effect of accounting change, net and net loss include non-cash impairment charges for goodwill of $307 million after tax ($307 million pre-tax), and income regarding litigation settlement of $1 million after tax ($1 million pre-tax). Income from continuing operations before cumulative effect of accounting change, net and net income include after-tax impairment charges for financial investments of $51 million ($78 million pre-tax), $5 million ($8 million pre-tax) and $10 million ($15 million pre-tax) in the second, third and fourth quarters of 2006, respectively. Net income for 2006 includes after-tax income (loss), net, related to discontinued operations of $0 million ($1 million pre-tax), $4 million ($5 million pre-tax), $27 million ($53 million pre-tax) and $(18) million ($(15) million pre-tax) in the first, second, third and fourth quarters of 2006, respectively.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The Company, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of its disclosure controls and procedures as required by Exchange Act Rules 13a-15(b) and 15d-15(b) as of December 31, 2007. Based on this evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

(b) Management's Report on Internal Control over Financial Reporting.

Management's report on the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) is included in this Report under Item 8. Financial Statements and Supplementary Data under the heading Management's Report on Internal Control over Financial Reporting and the report of our independent registered public accounting firm is included under the heading "Report of Independent Registered Public Accounting Firm" under the same Item.

(c) Changes in Internal Control over Financial Reporting.

In connection with the evaluation of the Company's "internal control over financial reporting" that occurred during the quarter ended December 31, 2007, which is required under the Securities Exchange Act of 1934 by paragraph (d) of Exchange Rules 13a-15 or 15d-15, (as defined in paragraph (f) of Rule 13a-15), management determined that, except as noted below, there was no change that materially affected or is reasonably likely to materially affect internal control over financial reporting.

During the fourth quarter of 2007, the Company continued a phased deployment of a new Enterprise Resource Planning ("ERP") system at Masco Contractor Services, one of the Company's larger business units. The new ERP system is a process improvement initiative and is not in response to any identified deficiency or weakness in the Company's internal control over financial reporting. The business process engineering of this initiative is significant in scale and complexity, and will result in significant modifications to certain internal controls. The implementation of the new ERP system has been designed to enhance the overall system of internal control over financial reporting through further automation and integration of business processes.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Certain information regarding executive officers required by this Item is set forth as a Supplementary Item at the end of Part I hereof (pursuant to Instruction 3 to Item 401(b) of Regulation S-K). The Company's Code of Business Ethics applies to all employees, officers and directors including the Principal Executive Officer and Principal Financial Officer and Principal Accounting Officer, and is posted on the Company's website at www.masco.com. Other information required by this Item will be contained in the Company's definitive Proxy Statement for its 2008 Annual Meeting of Stockholders, to be filed on or before April 29, 2008, and such information is incorporated herein by reference.

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Item 11. Executive Compensation.

Information required by this Item will be contained in the Company's definitive Proxy Statement for its 2008 Annual Meeting of Stockholders, to be filed on or before April 29, 2008, and such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Equity Compensation Plan Information

The Company has three equity compensation plans, the 1991 Long Term Stock Incentive Plan (under which further grants have been discontinued), the 2005 Long Term Stock Incentive Plan and the 1997 Non-Employee Directors Stock Plan (under which further grants have been discontinued). The following table sets forth information as of December 31, 2007 concerning the Company's three equity compensation plans, each of which was approved by stockholders. The Company does not have any equity compensation plans that are not 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)
Equity compensation plans approved by stockholders . . .	26,139,400	$27.11	16,158,500

The remaining information required by this Item will be contained in the Company's definitive Proxy Statement for its 2008 Annual Meeting of Stockholders, to be filed on or before April 29, 2008, and such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item will be contained in the Company's definitive Proxy Statement for its 2008 Annual Meeting of Stockholders, to be filed on or before April 29, 2008, and such information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

Information required by this Item will be contained in the Company's definitive Proxy Statement for its 2008 Annual Meeting of Stockholders, to be filed on or before April 29, 2008, and such information is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedule.

(a) Listing of Documents.

(1) *Financial Statements.* The Company's Consolidated Financial Statements included in Item 8 hereof, as required at December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006 and 2005, consist of the following:

Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Cash Flows
Consolidated Statements of Shareholders' Equity
Notes to Consolidated Financial Statements

(2) *Financial Statement Schedule.*

(i) Financial Statement Schedule of the Company appended hereto, as required for the years ended December 31, 2007, 2006 and 2005, consists of the following:

II. Valuation and Qualifying Accounts

(3) *Exhibits.*

Exhibit Number	
3.i	Restated Certificate of Incorporation of Masco Corporation and amendments thereto (*Incorporated by reference to Exhibit 3.i of Masco's 2005 Form 10-K filed 3-2-2006*).
3.ii	Bylaws of Masco Corporation, as Amended and Restated June 2, 2007 (*Incorporated by reference to Exhibit 3.ii of Masco's Form 8-K filed 6-6-2007*).
4.a.i	Indenture dated as of December 1, 1982 between Masco Corporation and Bank of New York Trust Company, N.A., as successor trustee under agreement originally with Morgan Guaranty Trust Company of New York, as Trustee (*Incorporated by reference to Exhibit 4.a.i of Masco's 2006 Form 10-K filed 2-27-07*) and Directors' resolutions establishing Masco Corporation's (i) 7⅛% Debentures Due August 15, 2013 (*Incorporated by reference to Exhibit 4.a.i of Masco's 2003 Form 10-K filed 2-27-2004*); (ii) 6.625% Debentures Due April 15, 2018 (*Incorporated by reference to Exhibit 4.a.i of Masco's 2003 Form 10-K filed 2-27-2004*); (iii) 5.75% Notes Due October 15, 2008 (*Incorporated by reference to Exhibit 4.a.i of Masco's 2003 Form 10-K filed 2-27-2004*); and (iv) 7¾% Debentures Due August 1, 2029 (*Incorporated by reference to Exhibit 4.a.i of Masco's 2004 Form 10-K filed 3-16-2005*).
4.a.ii	Agreement of Appointment and Acceptance of Successor Trustee dated as of July 25, 1994 among Masco Corporation, Morgan Guaranty Trust Company of New York and The First National Bank of Chicago (*Incorporated by reference to Exhibit 4.a.ii of Masco's 2004 Form 10-K filed 3-16-2005*).
4.a.iii	Supplemental Indenture dated as of July 26, 1994 between Masco Corporation and Bank of New York Trust Company, N.A., as successor trustee under agreement originally with The First National Bank of Chicago, as Trustee (*Incorporated by reference to Exhibit 4.a.iii of Masco's 2004 Form 10-K filed 3-16-2005*).

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Exhibit Number	
4.b.i	Indenture dated as of February 12, 2001 between Masco Corporation and Bank of New York Trust Company, N.A., as successor trustee under agreement originally with Bank One Trust Company, National Association, as Trustee *(Incorporated by reference to Exhibit 4.b.i of Masco's 2006 Form 10-K filed 2-27-07)* and Directors' Resolutions establishing Masco Corporation's (i) 5⅞% Notes Due July 15, 2012 *(Filed herewith);* (ii) 6½% Notes Due August 15, 2032 *(Filed herewith);* (iii) 4.80% Notes Due June 15, 2015 *(Incorporated by reference to Exhibit 4.b.i of Masco's 2nd Quarter Form 10-Q filed 8-4-2005);* (iv) 6.125% Notes Due October 3, 2016 *(Incorporated by reference to Masco's 2006 Form 10-K filed 2-27-2007);* (v) Floating Rate Notes Due 2010 *(Incorporated by reference to Exhibit 4.b.i of Masco's Form 10-Q filed 5-3-2007);* and (vi) 5.85% Notes Due 2017 *(Incorporated by reference to Exhibit 4.b.ii of Masco's Form 10-Q filed 5-3-2007).*
4.b.ii	Supplemental Indenture dated as of November 30, 2006 to the Indenture dated February 12, 2001 by and among Masco Corporation and Bank of New York Trust Company, N.A., as Trustee *(Incorporated by reference to Exhibit 4.b.iii of Masco's 2006 Form 10-K filed 2-27-2007).*
4.b.iii	Second Supplemental Indenture between Masco Corporation and J.P. Morgan Trust Company, National Association, as trustee dated as of December 23, 2004 (including form of Zero Coupon Convertible Senior Note, Series B due 2031) *(Incorporated by reference to Exhibit 10.1 of Masco's Form 8-K filed 12-23-2004).*
4.c	U.S. $2 billion 5-Year Revolving Credit Agreement dated as of November 5, 2004 among Masco Corporation and Masco Europe, S.á r.l. as borrowers, the banks party thereto, as lenders, J.P. Morgan Securities Inc. and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Book Runners and Citibank, N.A., as Syndication Agent, Sumitomo Mitsui Banking Corporation, as Documentation Agent, and Bank One, N.A. (Main Office Chicago), as Administrative Agent *(Incorporated by reference to Exhibit 4 of Masco's Form 8-K filed 11-12-2004)*, as amended by Amendment No. 1 dated February 10, 2006 *(Incorporated by reference to Exhibit 4 of Masco's Form 8-K filed February 15, 2006).*
Note:	Other instruments, notes or extracts from agreements defining the rights of holders of long-term debt of Masco Corporation or its subsidiaries have not been filed since(i) in each case the total amount of long-term debt permitted thereunder does not exceed 10 percent of Masco Corporation's consolidated assets, and (ii) such instruments, notes and extracts will be furnished by Masco Corporation to the Securities and Exchange Commission upon request.
Note:	Exhibits 10.a through 10.j constitute the management contracts and executive compensatory plans or arrangements in which certain of the Directors and executive officers of the Company participate.
10.a	Masco Corporation 1991 Long Term Stock Incentive Plan (as amended and restated October 26, 2006) *Incorporated by reference to Exhibit 10.a of Masco's 2006 Form 10-K filed 2-27-2007)* (i) Forms of Restricted Stock Award Agreement for awards prior to January 1, 2005 *(Incorporated by reference to Exhibit 10.a.i of Masco's 3rd Quarter Form 10-Q filed 11-04-2004)* and for awards on and after January 1, 2005 *(Incorporated by reference to Exhibit 10.1 of Masco's Form 8-K filed 1-06-2005);* (ii) Forms of Restoration Stock Option *(Incorporated by reference to Exhibit 10.a.ii of Masco's 3rd Quarter Form 10-Q filed 11-4-2004);*

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Exhibit Number	
	(iii) Forms of Stock Option Grant (*Incorporated by reference to Exhibit 10.a.iii of Masco's 3rd Quarter Form 10-Q filed 11-4-2004*);
	(iv) Forms of Stock Option Grant for Non-Employee Directors (*Incorporated by reference to Exhibit 10.a.iv of Masco's 3rd Quarter Form 10-Q filed 11-4-2004); and*
	(v) Forms of amendment to Award Agreements (*Incorporated by reference to Exhibit 10.a of Masco's 2005 Form 10-K filed 3-2-2006).*
10.b.i	Masco Corporation 2005 Long Term Stock Incentive Plan (as amended and restated October 26, 2006) (*Incorporated by reference to Exhibit 10.b if Masco's 2006 Form 10-k filed 2-27-2007)*
	(i) Form of Restricted Stock Award (*Incorporated by reference to Exhibit 10.b of Masco's 2005 Form 10-K filed 3-2- 2006);*
	(ii) Form of Stock Option Grant (*Incorporated by reference to Exhibit 10.b of Masco's 2005 Form 10-K filed 3-2-2006);*
	(iii) Form of Restoration Stock Option (*Incorporated by reference to Exhibit 10.b of Masco's 2005 Form 10-K filed 3-2-2006);* and
	(iv) Form of Stock Option Grant for Non-Employee Directors (*Incorporated by reference to Exhibit 10.b of Masco's 2005 Form 10-K filed 3-2-2006).*
10.b.ii	Non-Employee Directors Equity Program under Masco's 2005 Long Term Stock Incentive Plan (*Filed herewith)*
	(i) Form of Restricted Stock Award Agreement (*Filed herewith);* and
	(ii) Form of Stock Option Grant Agreement (*Filed herewith).*
10.c	Forms of Masco Corporation Supplemental Executive Retirement and Disability Plan and amendments (*Filed herewith).*
10.d	Masco Corporation 1997 Non-Employee Directors Stock Plan (as amended and restated October 27, 2005) (*Incorporated by reference to Exhibit 10.e of Masco's 2005 Form 10-K filed 3-2-2006*)
	(i) Form of Restricted Stock Award Agreement (*Incorporated by reference to Exhibit 10.e of Masco's 2005 Form 10-K filed 3-2-2006);*
	(ii) Form of Stock Option Grant (*Incorporated by reference to Exhibit 10.e of Masco's 2005 Form 10-K filed 3-2-2006); and*
	(iii) Form of amendment to Award Agreements (*Incorporated by reference to Exhibit 10.e of Masco's 2005 Form 10-K filed 3-2-2006).*
10.e	Other compensatory arrangements for executive officers (*Incorporated by reference to Exhibit 10.f of Masco's 2005 Form 10-K filed 3-2-2006*).
10.f	Masco Corporation 2004 Restricted Stock Award Program (*Incorporated by reference to Exhibit 10.b of Masco's Form 10-Q filed 8-5-2004*).
10.g	Compensation of Non-Employee Directors (*Filed herewith).*
10.h	Masco Corporation Retirement Benefit Restoration Plan dated January 1, 1995, as amended October 1, 2004 (*Incorporated by reference to Exhibit 10.p of Masco's 2004 Form 10-K filed 3-16-2005*).
10.i	Agreement dated as of April 3, 2007 between Richard A. Manoogian and Masco Corporation (*Incorporated by reference to Exhibit 10 of Masco's Current Report on Form 8-K filed 4-9-2007).*
10.j	Letter from Masco Corporation to Donald DeMarie regarding relocation arrangements (*Filed herewith).*

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Exhibit Number	
10.k	Amended and Restated Shareholders' Agreement, dated as of November 27, 2006, between RHJ International SA, Asahi Tec Corporation and The Principal Company Shareholders Listed on Schedule I thereto *(Incorporated by reference to Exhibit 10.i of Masco's 2006 Form 10-K filed 2-27-2007).*
10.l	Shareholders Agreement, dated as of June 6, 2002, as amended and restated as of July 19, 2002, by and among Trimas Corporation, Metaldyne Company LLC, and the Heartland Entities listed therein and the Other Shareholders named therein or added as parties thereto from time to time *(Incorporated by reference to Exhibit 10.j of Masco's 2006 Form 10-K filed 2-27-2007).*
10.m	Amendment No. 1, dated as of August 31, 2006, to Shareholders Agreement, dated as of June 6, 2002, as amended and restated as of July 19, 2002, by and among Trimas Corporation, Metaldyne Company LLC, Heartland Industrial Partners, L.P. and the Heartland Entities listed therein and the parties identified on the signature pages thereto as "Metaldyne Shareholder Parties" *(Incorporated by reference to Exhibit 10.k of Masco's 2006 Form 10-K filed 2-27-2007).*
12	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends *(Filed herewith).*
21	List of Subsidiaries *(Filed herewith).*
23	Consent of Independent Registered Public Accounting Firm relating to Masco Corporation's Consolidated Financial Statements and Financial Statement Schedule *(Filed herewith).*
31.a	Certification by Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) *(Filed herewith).*
31.b	Certification by Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) *(Filed herewith).*
32	Certifications required by Rule 13a-14(b) or Rule 15d-14(b)and Section 1350 of Chapter 63 of the United States Code *(Filed herewith).*

The Company will furnish to its stockholders a copy of any of the above exhibits not included herein upon the written request of such stockholder and the payment to the Company of the reasonable expenses incurred by the Company in furnishing such copy or copies.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

MASCO CORPORATION

By: /s/ JOHN G. SZNEWAJS

John G. Sznewajs
Vice President, Treasurer and Chief Financial Officer

February 22, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Principal Executive Officer:

/s/ TIMOTHY WADHAMS Timothy Wadhams	*President, Chief Executive Officer and Director*	

Principal Financial Officer and Principal Accounting Officer:

/s/ JOHN G. SZNEWAJS John G. Sznewajs	*Vice President, Treasurer and Chief Financial Officer*	
/s/ DENNIS W. ARCHER Dennis W. Archer	*Director*	
/s/ THOMAS G. DENOMME Thomas G. Denomme	*Director*	
/s/ PETER A. DOW Peter A. Dow	*Director*	
/s/ ANTHONY F. EARLEY, JR. Anthony F. Earley, Jr.	*Director*	*February 22, 2008*
/s/ VERNE G. ISTOCK Verne G. Istock	*Director*	
/s/ DAVID L. JOHNSTON David L. Johnston	*Director*	
/s/ J. MICHAEL LOSH J. Michael Losh	*Director*	
/s/ RICHARD A. MANOOGIAN Richard A. Manoogian	*Executive Chairman*	
/s/ LISA A. PAYNE Lisa A. Payne	*Director*	
/s/ MARY ANN VAN LOKEREN Mary Ann Van Lokeren	*Director*	

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MASCO CORPORATION

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS

for the years ended December 31, 2007, 2006 and 2005

(In Millions)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (a)	Deductions (b)	Balance at End of Period
Allowance for doubtful accounts, deducted from accounts receivable in the balance sheet:					
2007	$84	$27	$(1)	$(25)	$85
2006	$78	$14	$(2)	$ (6)	$84
2005	$82	$13	$(5)	$(12)	$78

(a) Allowance of companies acquired and companies disposed of, net.

(b) Deductions, representing uncollectible accounts written off, less recoveries of accounts written off in prior years.

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MASCO CORPORATION

Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

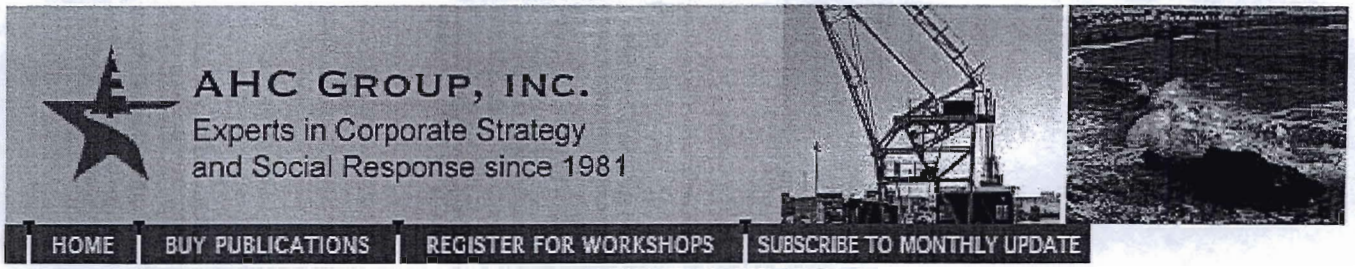
(Dollars in Millions)

	Year Ended December 31,					
	2007	2006	2005	2004	2003	2002
Earnings Before Income Taxes, Preferred Stock Dividends and Fixed Charges:						
Income from continuing operations before income taxes, minority interest and cumulative effect of accounting change, net	$ 770	$ 914	$1,425	$1,604	$1,302	$ 911
Deduct equity in undistributed (earnings) of fifty-percent-or-less-owned companies	(2)	(1)	(1)	(1)	—	(10)
Add interest on indebtedness, net	258	241	246	214	252	226
Add amortization of debt expense	5	4	6	6	13	13
Add estimated interest factor for rentals	55	52	40	33	31	23
Earnings before income taxes, minority interest, cumulative effect of accounting change, net, fixed charges and preferred stock dividends	$1,086	$1,210	$1,716	$1,856	$1,598	$1,163
Fixed Charges:						
Interest on indebtedness	$ 259	$ 241	$ 244	$ 214	$ 252	$ 224
Amortization of debt expense	5	4	6	6	13	13
Estimated interest factor for rentals	55	52	40	33	31	23
Total fixed charges	$ 319	$ 297	$ 290	$ 253	$ 296	$ 260
Preferred stock dividends (a)	$ —	$ —	$ —	$ 8	$ 16	$ 14
Combined fixed charges and preferred stock dividends	$ 319	$ 297	$ 290	$ 261	$ 312	$ 274
Ratio of earnings to fixed charges	3.4	4.1	5.9	7.3	5.4	4.5
Ratio of earnings to combined fixed charges and preferred stock dividends	3.4	4.1	5.9	7.1	5.1	4.2
Ratio of earnings to combined fixed charges and preferred stock dividends excluding certain items	4.2	5.5	6.2	7.3	5.0	4.8

(a) Represents amount of income before provision for income taxes required to meet the preferred stock dividend requirements of the Company.

(b) Excludes the 2007 non-cash, pre-tax impairment charges for goodwill and other intangible assets of $227 million and the non-cash, pre-tax impairment charge for financial investments of $22 million; 2006 non-cash, pre-tax impairment charges for goodwill and financial investments of $317 million and $101 million, respectively, and the pre-tax income related to the Behr litigation settlement of $1 million; the 2005 pre-tax income related to the Behr litigation settlement of $6 million, the non-cash, pre-tax impairment charges for goodwill and financial investments of $43 million and $45 million, respectively; the 2004 pre-tax income related to the Behr litigation settlement of $30 million, the non-cash, pre-tax impairment charges for goodwill of $50 million and the pre-tax impairment charge of $21 million related to a marketable security; the 2003 pre-tax income related to the Behr litigation settlement of $72 million and the non-cash, pre-tax goodwill impairment charges of $48 million; and the 2002 pre-tax net charge of $147 million related to the Behr litigation settlement.

Tab 29



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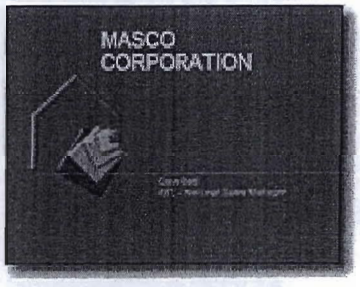
Resources
Site Map



"The first principle of a free society is an untrammeled flow of words in an open forum."
— Adlai Stevenson

<< Back to Archive of Past Workshops

AHC Group 17th Annual Corporate Affiliates Workshop Series

"Achieving Results: In Corporate Strategy Today"

June 20-21, 2007

LEARN MORE |•| WHERE & WHEN |•| SPEAKER AGENDA

Gideon Putnam Resort & Spa, Saratoga Springs, New York

NOW ONLINE!
Selected **PowerPoint slideshows** from some key presenters at this event, which you can download **HERE »**

Workshop Speakers

Download this agenda as a PDF »

Day One: Wednesday, June 20
8:00am - 12:00pm

Delivering on the Bottom Line:
Corporate Governance and Social Needs Workshop

WORKSHOP CHAIR: Steve Wolff, former President of Power Production at Dayton Power & Light; AHC Group Senior Associate.

Six years ago, during the peak of the Enron and WorldCom crisis, Steve Percy — former CEO of BP America — initiated our large corporate benchmarking workshop on Corporate Governance and Innovation. We are now renaming this for the next three years under the chairmanship of Steve Wolff with inputs from our member companies.

Steve Wolff, a longtime affiliate member with DP&L, is now taking over as the Chair of this ongoing workshop. Here we blend the needs of top operating people with the themes of all our workshops. The goal is to add key messages and strategic and growth lessons regarding profit and loss to the themes of Site Remediation, Risk Reduction, Emerging Issues and Shareholder Value — our ongoing themes.

We do this because our members find that reducing the firm's risk premium, and positioning for future growth, go hand in hand. See www.ahcgroup.com (the "Money Matters" sections) for background and history.

Welcoming Remarks from the AHC Group Founder, Bruce Piasecki

Read Bruce's bio »

GA 000206

- **Bridging Corporate Affiliate Companies with New-Century Needs**
- **How Leaders Master the Tasks of Tomorrow**

AHC Group

Steve Wolff,
AHC Group Senior Associate, Former President of Power Production, DP&L

www.ahcgroup.com

Read Steve's bio »

• TOPIC:
"Delivering on the Bottom Line: Directions for This Workshop"

Last session Steve spoke to us on his increased responsibilities to now lead DPL in generation, IT, purchasing, and asset management. He spoke about DPL's new alliance with Duke (after buying Cinergy), and how he worked with AEP as a strategic partner. Building from the January workshop, where he was elected by the six CEOs in our membership as chair of this workshop, Steve will provide an overview of where he plans to take this workshop in the meetings ahead. He will run this in an interactive fashion, which you saw in January, seeking inputs and topics from each of you.

Shell Oil Company

Sam Smolik,
Vice President — Global Downstream HSSE

www.shellchemicals.com

Read Sam's bio »

• TOPIC:
"A Retrospective — Key Learnings from a 30+ Year Career in Dow and Shell"

Shell is our newest global Corporate Affiliate, along with Lockheed Martin. Here Sam returns from when he attended as the chief environmental officer of Dow as a member company. Sam's management responsibilities include environment, safety, security and all related global downstream responsibilities.

Sam Smolik has spent 32 years in a unique blend of manufacturing and HSSE leadership positions. This includes experiences in both the chemical and oil businesses in several geographies. During this talk for our members, he has accepted our invitation to share some of his key learnings around the connectivity of the different parameters that yield quality performance in the industry.

Introduction by Thomas Rutherfoord, Chairman,

GA 000207

Rutherfoord

IBM

Kevin Thompson,
Program Manager for Corporate Citizenship
www.ibm.com

Read Kevin's bio »

• TOPIC:
"Innovations in CSR: How to Shift from Being Reactive to Proactive"

A majority of corporate leaders now agree CSR issues pose significant risks and provide viable market opportunities. Few companies know what to do about it. This presentation will focus on building effective CSR management structures, partnerships, and go-to-market models to align CSR with business strategy and company operations. Kevin Thompson is new to our network, and will bring a special set of insights from IBM.

Introduction by David Frazier, Managing Editor of CST and Director of Policy at AHC Group

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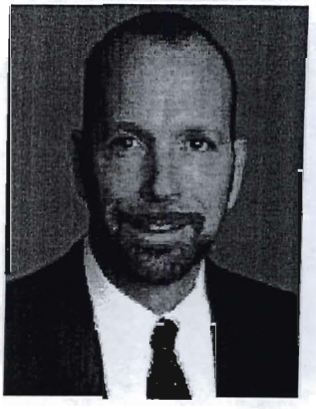
ESS

Robert Johnson,
Founder and CEO
www.ess-home.com

Read Robert's bio »



• TOPIC:
"ESS Goes Global: EH&S Management Solutions for Governance, Risk and Compliance"

Robert Johnson's ESS has provided integrated IT solutions to over 17,000 global clients, including most of our Corporate Affiliates. In the last three years, he has worked actively to bring his company's EHS platforms into new regions, from China and India to Kuwait and the developing world. IT platforms play an increasingly significant role in aligning the needs for efficiency and emissions reductions with "going global."

Asked by a number of our affiliates to "globalize" their platform, Robert here explores how best to address this growing demand for "green" performance results. How best to aggregate and present the results across differing regulatory schemes and investors? Learn how information management platforms can help drive EHS performance to assure business sustainability and meet corporate governance and social responsibility goals.

Please visit the ESS website to investigate the range and history of this longstanding Corporate Affiliate.

Introduction by Patrick McCarthy, VP Energy & Environmental Services Practice at Lockheed Martin

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1:00pm - 5:00pm

Shareholder Value and Money Matters Workshop

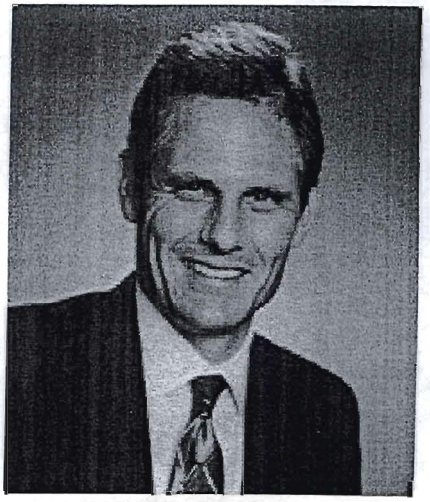
WORKSHOP CHAIR: Russ Thornton, Director, Climate Change Services North America at DNV

Seven years ago Hewson Baltzell, the President of Innovest, began our 100-company benchmarking series on Shareholder Value. Our central mission is to examine instances of corporate leadership and stock valuation methods that explore how improvements in energy, environmental, and product performance relate to the stock value or shareholder price of a firm. Two years ago, when DNV

joined as an AHC affiliate, we expanded our exploration of Money Matters to include this lasting question: *How does a firm's financial risks and stock valuations relate to a firm's path of growth?*

Introduction by Dave Harvey

Russ will speak to the group on **"Wall Street/Capitalism and Climate Risk."** Russ will depict the huge swing in ferocity of interest on these topics and how this will affect industry. How is Wall Street reacting and preparing for legislative change and increased shareholder proposals? Russ will focus on some actual, first-hand examples of how large investment firms and major corporations are responding to "critical climate change issues" by developing and implementing many-sided *business-driven* actions, including establishing and verifying their carbon footprint, acquiring assets, and forming strategic partnerships.



AHC Group has established an ongoing affiliation with DNV, and so Helena and Russ are workshop chairs through the year 2009 in this area. In this ongoing workshop we ask: *What best links financial risk and stock valuation with a firm's path of growth?*

HIP Investor

R. Paul Herman,
CEO & Founder

www.hipinvestor.com

• TOPIC:
"Creating Shareholder Value by Solving Human Problems"

R. Paul Herman founded HIP Investor to mobilize the global capital market of equity, corporate and government debt, and cash deposits/reserves of $140 trillion to realize both Human Impact + Profit (HIP) at the same time. Paul is an alumnus of McKinsey and Company, eBay founder Pierre Omidyar's venture capital and social investment firm, and Ashoka.org, a global accredited network of 2000+ systems-changing social entrepreneurs. Paul also founded a financial services company and industry niche, and sold his company after attracting 30,000 customers.

HIP Investor will share its innovative framework for solving human problems that yield both positive impact and attractive profits for corporations. The 1st Annual HIP Scorecard was published in the April 2007 issue of *Fast Company* magazine — and highlighted HIP and its collaborator, SVT Group of San Francisco. Paul will describe specific Fortune 500 products and services that create health, wealth, earth, and equality — and boost customer and satisfaction — to generate sustainable, profitable growth.

Introduction by Lily Gedney, Research Assistant and Writer of the AHC Group

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Marsh

Chris Smy,

GA 000209

Managing Director and Global Practice Leader
www.marsh.com

• TOPIC:
"The New Realities of Risk as Green Goes Global"

As one of the top 3 insurance agencies in the World, Marsh has a unique view of emerging global risks. By reviewing special cases of risk, such as when Indonesia becomes a prime tin producer, or when China becomes a major manufacturer in the world's resource supplies this presentation looks at Climate Change, responsible investing and emerging issues in Asia. The presentation concludes with the three main routes by which investors engage companies, namely through benchmarking sessions, like the AHC Group workshops, through informal corporate guidance and through researchers talking directly with the companies at risk.

Introduction by Chuck Mowbray, Manager — Environmental Affairs at FirstEnergy

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Lockheed Martin IT

Patrick McCarthy,
VP Energy & Environmental Services Practice
www.lockheedmartin.com

• TOPIC:
"Being a Leader on Energy and Efficiency: The Rising Price of Energy Offers New Strategies at LM"

This case-based presentation from our newest global Corporate Affiliate comes from a veteran in the areas linking energy, information, and corporate strategy. Patrick will explore in this presentation how best to provide large-scale efficiency programs to public entities and corporate leaders. Since 2002, Lockheed Martin has invested over $14 million in capital improvements specifically targeted at increasing their own energy efficiency and lowering greenhouse gas emissions at LM operating units.

Introduction by Debbie Boyle, Director of Environment, Safety and Industrial Health at Oncor/TXU

Nike

Lonny Knabe,
Sustainability Coordinator
www.nike.com

• TOPIC:
"Creating Value and Brand from Social Response and Integration of Processes Abroad: Just Do It"

Lonny last was with the AHC Group set of leaders last November in Houston, at our "energy as a game-changer" sessions. Here he will update us on Nike's climate strategy globally, and report on the progress they have made on emission reductions in last three years. In addition, he will explain and explore why Nike has aggressively sought to tie in their CSR goals with implementation efforts in their Asian manufacturing sites. As we enter a "brand new world," we are pleased to present Nike's perspective.

Introduction by Kelly Bennett, Director of Business Development for Sterling Planet

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Day Two: Thursday, June 21
8:00am - 12:00pm

Site Remediation and Risk Reduction Workshop

WORKSHOP CHAIRS: Sheryl Telford, Business Team Manager at DuPont, and Richard Ramirez, Head VP of Remediation at Celanese

For the last six years, Dwight Bedsole has chaired this ongoing AHC Group workshop on site remediation programs, policies, and new risk management tools. Dwight will be abroad this June, so Sheryl Telford of DuPont and Rick Ramirez of Celanese will co-chair in Dwight's absence. This has become a widely respected workshop transacted with insight and confidentiality. This workshop has transformed over the years and now focuses on a broader topic range to also include financial assurance, operational risk, and retired assets. This engaging workshop now involves over 120 of the leading multinationals in the world.

DUPONT

Canadian National

CN

Normand Pellerin,
Vice President of Environment
www.cn.ca

Read Normand's bio »

• TOPIC:
"CN's Evolution as a Company, and Enterprise Risk Management and Its Value Added to the Company"

Normand will provide an overview of the evolution of Canadian National (CN) as a company, from a Canadian government corporation to a publicly traded company with assets throughout North America. Normand will discuss CN's integrated function, which includes Law, Public/Government Affairs, Environment and Risk Management, and how the Enterprise Risk Management (ERM) framework it employs has translated into value added for the company.

Introduction by Rick Ramirez, Head VP of Celanese Americas

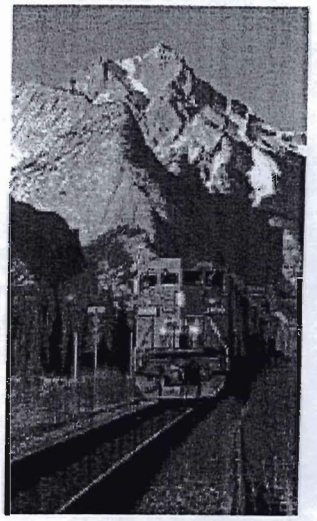

Photo courtesy of CN

CH2M Hill

CH2MHILL

John Lovenburg
VP Director, Site Management Market Segment

Al Hannum,
Global Director of Industrial Accounts
www.ch2m.com

• TOPIC:
"Globalization and the Ecology: Opportunities in Convergence"

CH2M Hill has been an active multi-year participant in these Affiliates events. Here in his co-presentation with Al Hannum, John Lovenburg offers a reply to our January inquiry that they offer their sense of global developments. Founded in 1946, the firm has a special perspective on trends and the required infrastructure needs to fulfill the challenges before us regarding water, energy and materials supply.

Clients and their consultants are partnering to expand into overseas markets. Participate in the discussion as CH2M Hill

GA 000211

describes how it supports clients who have acquired facilities and properties outside the U.S. to support growth in new markets to meet customer demands. CH2M Hill describes how it has expanded rapidly internationally in the last five years to meet multinational organizational needs for engineering and environmental services. This presentation will provide highlights of the client and consultant approach for international expansion, the challenges faced, and the differences experienced in multiple countries and continents. Learn what globalization means to clients and consultants; what drivers and consequences result from globalization; and the emerging needs and opportunities as globalization takes clients to places just on the "edge of development."

Introduction by Fil Fina, Co-Founder and Vice President, Engineering, at Aztech Technologies

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Rutherfoord

Steve Myers,
Vice President & Practice Leader, Environmental Risk Management
www.rutherfoord.com

MetaVû

Mark Serwinowski,
President
www.metavu.com

• TOPIC:
"Managing Ambiguities in a Time of Great Changes in Corporate Strategy"

During our January-February sessions, the Suncor presentation inspired a number of participants to seek this presentation on how best to manage and visualize risk and ambiguity in a time of great change. Suncor, for example, has grown from $13 billion to over $39 billion in market cap during its Corporate Affiliates membership. They displayed a remarkable set of decision tools to get there. Here our leaders from Rutherfoord and MetaVu offer a "frame" and a "set of choice points" as we manage increased ambiguity during a time of swift and global attention.

Introduction by Al Mok, Director EHS at Suncor Energy

1:00pm - 4:30pm

Emerging Issues Workshop

ACTING WORKSHOP CHAIR: Cornelius Murphy, President SUNY Environmental Science and Forestry
ONGOING WORKSHOP CHAIR: Dennis Minano, former head of Energy and Environment at GM, and since 2003 an AHC Group Senior Associate and chair of this ongoing workshop.

Neil Murphy will be the Acting Workshop Chair of the Emerging Issues workshop this June, as Denny cannot be with us. Prior to serving as President of SUNY-ESF, Neil held various positions at O'Brien & Gere Engineers, Inc. starting out as a Laboratory Technician in June 1970, and working his way up to President in 1993 and Chairman of the Board in 1998. His technical expertise lies in the areas of environmental science and engineering management, hazardous waste management, environmental assessment, renewable energy systems, limnology, urban runoff planning, and industrial wastewater treatment.

Denny joined the AHC Group in early 2003, and this is the eighth set of facilitating his Emerging Issues workshop, now involving over 84 multinationals from our 210-leader network. Write Denny@ahcgroup.com with the emerging topics you wish us to cover.

GA 000212

The Emerging Issues workshops provide an opportunity for today's leaders to address those growing business strategy and changing global economy concerns on the near horizon, providing a glimpse into the future from the leading experts in their fields. As the executive who redesigned GM's public policy functions, and as a former chairman of Keystone and other key emerging issues forums, Denny shows in this ongoing workshop the value of framing a response with tact and force.

Masco Contractor Services

Dave Bell,
Vice President of Marketing
www.masco-csc.com

• TOPIC:
"The Building Alliance between GE and Masco"

Masco Corporation is a global provider of branded supplies and services for residential new construction and home improvement. Some years they build over a million new homes in North America. This presentation explains the seven key building science principles of their new environments for the living program with GE. In addition, Dave Bell, their EFL National Sales Manager, gives us a glimpse of their new and emerging ecoimagination screens and dashboards that will allow home users to monitor the environmental footprint and behaviors of their homes.

Introduction by Rachel McCracken of the AHC Group

SUNY College of Environmental Science and Forestry

Neil Murphy,
President
www.esf.edu

• TOPIC:
"The Biorefinery in New York: Woody Biomass into Commercial Ethanol"

We all know we are rapidly confronting limited energy diversification options in our carbon constrained world. This presentation by the President of the SUNY college of Environmental Science and Forestry explores new hopeful options in bio-refining, including a commercial ethanol plant in NY that may give us a glimpse of things to come. Within this case study expect to see the mounting tensions between bio-mass for energy and bio-mass for critical food supplies in our new century.

Introduction by Jeff Sama, Director of Environmental Permits and Pollution Prevention at New York Department of Environmental Conservation

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New Leaf Paper

Michael Pete,
Vice President
www.newleafpaper.com/

• TOPIC:
"Business Ethics in the Paper Manufacturing Industry"

A firm that started in 2000 and is now a $19.5 million firm. New Leaf Paper is launching Sakura 100, a new product representing a significant advance over the recycled coated sheets of other U.S. paper companies, which contain only 10%-30% post-consumer waste. New Leaf Sakura 100 is designated Ancient Forest Friendly™ and is manufactured with Green-e® certified

GA 000213

Tab 30

Energy Sense

Company
Services
Affiliations
Resources
Contact Us

ONLINE RESOURCES

MASCO Contractor Services

- Web Site: http://www.masco-csc.com

Environments for Living Program

- Web Site: http://www.eflhome.com

ENERGY STAR® Program

Energy Sense can assist your building company become an Energy Star program partner.

- Main web site for the ENERGY STAR Program
- Process and forms for becomming an Energy Star partner

Energy Sense Forms

The following forms can be faxed or e-mailed to Energy Sense.

- Energy Sense Builder Profile Form (pdf)
- Energy Sense Inspection Form (pdf)

Get Adobe Reader

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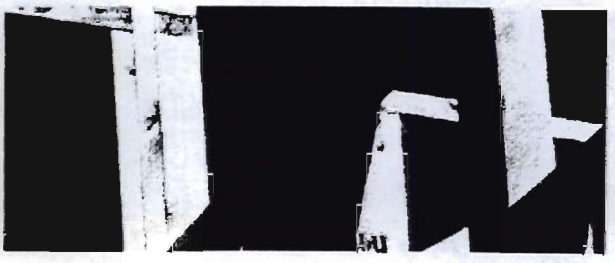
GA 000247

Energy Sense

Company
Services
Affiliations
Resources
Contact Us



CONTACT INFORMATION

By Phone / In Person

You can contact us at our office Monday through Friday, 8:00am-5:00pm.

14655 Northwest Freeway, Suite 102
Houston, TX 77040
E-mail: EnergySense@mascocs.com
Phone: (713) 462-5631
Fax: (713) 462-7313

By E-mail

Name:

E-mail:

Phone Number:

Company/Org:

Comments:

Send Reset

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GA 000248

MASCO Contractor Services

Find a Location Request a Bid Search: go

Home Products Services About MCS Careers Contac

You've got the vision and the plans.

Now what you need is the best team to help you realize your goals.

We're Masco Contractor Services, and we're dedicated to providing outstanding service for our builder-customers in every possible way. We offer a wide range of installation capabilities, logistical know-how and unique services - on a national level.

But more importantly, we see ourselves as being integral members of your team. We'll help fulfill your vision by providing services and expertise that can result in construction excellence.

Masco Contractor Services is a group of independent companies operating under local business names that you know and trust.

INSTALLING IN A MORE ENERGY EFFICIENT WAY.

ENVIRONMENTS FOR *Living*

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Terms & Conditions of Sale Employee Login Site Map Terms of Use

GA 000242

Tab 31

ENERGY STAR Partner List Results

Look for **Partners** in a different Country and State:
United States
All States Go

New Search Refine Search

Results **1 - 36** of 36 All # A B C D **E** F G H I J K L M N O P Q R S T U V W X Y Z

Name	Partner Type	Location	Award Category (Year)
E3 Building Sciences	Home Energy Rater EXIT	Florida	Excellence in Efficient Homes (2007)
EAM Associates, Inc.	Home Energy Rater EXIT	New Jersey	Excellence in Efficient Homes (2007)
Earth Advantage, Inc.	Home Energy Rater	Oregon	Excellence in Efficient Homes (2007)
EarthCraft House	Utility/ States and Regional Energy Efficiency Group for Homes	Georgia	Excellence in Efficient Homes (2007)
Eastbrook Homes	Home Builder EXIT	Michigan	Excellence in Efficient Homes (2007)
Eastman Kodak Company	Product Manufacturer, Business, School, or Government committed to improving its energy efficiency, IMG	New York	Corporate Commitment(2003), Excellence in Energy Management (2004), Sustained Excellence(2005)
Edge Builders	Home Builder EXIT	New Jersey	Excellence in Efficient Homes (2007)
Efficiency Vermont	Utility/ States and Regional Energy Efficiency Group for Buildings & Plants, Business, School, or Government committed to improving its energy efficiency, Utility/ States and Regional Energy Efficiency Group for Homes EXIT , Home Performance EXIT , Utility/ States and Regional Energy Efficiency Group for Products EXIT	Vermont	Excellence in Consumer Education (1998), Excellence in ENERGY Efficiency and Environmental Education(2003,2004), Excellence in ENERGY STAR Promotion (2008), Excellence in Efficient Homes(2007), Excellence in Efficient Products(2004)
ei3 Corporation	Energy Service & Product Provider EXIT	New Jersey	Excellence in Energy Management (2004)
EIC, Inc. / Comfort Home Corporation	Home Energy Rater	Pennsylvania	Excellence in Efficient Homes (2007)
Elite Communities	Home Builder EXIT	Arizona	Excellence in Efficient Homes (2007)

GA 000221

ELLSEE Construction Co., LLC	Home Builder	New Jersey	Excellence in Efficient Homes (2008)
EMF Home Consultants Inc.	Home Energy Rater	Wisconsin	Excellence in Efficient Homes (2007)
Ence Homes	Home Builder EXIT	Utah	Excellence in Efficient Homes (2002,2004,2007,2008), Sustained Excellence(2005,2006,2007)
Enercalc - CA	Home Energy Rater	California	Excellence in Efficient Homes (2007)
Energy and Environmental Ratings Alliance	Home Energy Rater	Kansas	Excellence in Efficient Homes (2007)
Energy Calculation Services	Home Energy Rater	California	Excellence in Efficient Homes (2007)
Energy Conservation Group	Home Energy Rater	Nevada	Excellence in Efficient Homes (2007)
Energy Coordinating Agency of Philadelphia, Inc. (ECA)	Home Performance, Home Energy Rater	Pennsylvania	Excellence in Efficient Homes (2007)
Energy Diagnostics	Home Energy Rater	Indiana	Excellence in Efficient Homes (2007)
Energy Efficiency Solutions	Home Energy Rater	Iowa	Excellence in Efficient Homes (2007)
Energy Efficient Homes Midwest, Inc.	Home Energy Rater EXIT	Indiana	Excellence in Efficient Homes (1998,1999,2007)
Energy Inspectors	Home Energy Rater	California	Excellence in Efficient Homes (2007)
Energy Inspectors Corporation	Home Energy Rater	Nevada	Excellence in Efficient Homes (2007), Partner of the Year(2008)
Energy Management Solutions	Home Energy Rater	North Dakota	Excellence in Efficient Homes (2007)
Energy Rated Homes - West	Home Energy Rater	California	Excellence in Efficient Homes (2007)
Energy Rated Homes of Iowa	Home Energy Rater	Iowa	Excellence in Efficient Homes (2007)
Energy Rated Homes of Utah	Home Energy Rater EXIT	Utah	Excellence in Efficient Homes (2007)
Energy Sense	Home Energy Rater EXIT	Texas	Excellence in Efficient Homes (2003,2005,2006,2007)

Tab 32

Energy Services Group	Home Energy Rater EXIT	Delaware	Excellence in Efficient Homes (2007)
Energy Trust of Oregon	Utility/ States and Regional Energy Efficiency Group for Buildings & Plants, Utility/ States and Regional Energy Efficiency Group for Homes EXIT , Home Performance EXIT , Utility/ States and Regional Energy Efficiency Group for Products	Oregon	Excellence in ENERGY Efficiency and Environmental Education (2006), Excellence in ENERGY STAR Promotion(2008), Excellence in Efficient Homes(2007), Excellence in Energy Management (2007)
EnergyLogic	Home Energy Rater	Colorado	Excellence in Efficient Homes (2007)
Engle Homes Colorado	Home Builder	Colorado	Excellence in Efficient Homes (2004,2007,2008)
Entergy Texas	Utility/ States and Regional Energy Efficiency Group for Homes, Utility/ States and Regional Energy Efficiency Group for Products	Texas	Excellence in Efficient Homes (2007)
Environments for Living/Masco Contractor Services	Utility/ States and Regional Energy Efficiency Group for Homes, Home Energy Rater	Florida	Excellence in Efficient Homes (2007)
Evermon Homes, LLC	Home Builder	Texas	Excellence in Efficient Homes (2008)
Results **1 - 36** of 36		All # A B C D E F G H I J K L M N O P Q R S T U V W X Y Z	

Email This Page

GA 000223

GA 000224

CHEERS®

Increasing Energy Code Performance Through Home Energy Ratings

RESNET Conference

San Diego, CA

February 24, 2003

GA 000225

Issues for the HERS Provider

- Infrastructure Development
- Roles and Responsibilities
- Implementation
- Current Environment

GA 000226

Infrastructure Development
What will it take?

- Determine Requirements
  - Organizational Structure
    - Separation of HERS Provider and HERS Raters
  - Conflict of Interest Provisions
    - Financial Interest Provisions
    - Ownership
  - Multiple legal issues
    - Development of contracts – Incorporating Regulatory issues into Rater agreements
    - Training curriculum – Develop curriculum to meet the goals of the standards
  - Quality Assurance Requirements
    - Continuing Education Requirements

GA 000227

Infrastructure Development
Understand the Market

- Review the current environment- What is out there?
  - What is the process for having homes built
  - Potential Partnerships and creating synergies
  - How do you create a seamless integration into an established process?
- Where are you going to get the Raters?
  - What professions can you create synergies with?
  - How do you market an untested program?
- Is perception reality?
  - What are some of the speed bumps?

GA 000228

Infrastructure Development
Who is part of the process?

Market Actors	
Existing Housing Market	**New Construction Market**
Homeowners	Homebuilder
Rater	Rater
Software	Building Department
	Energy Consultant
	Installer(s)
	Software Vendors
	Regulatory Reporting

GA 000229

Roles and Responsibilities for the Provider
Credibility - Responsibility

- Training by Provider must be top notch and continuing
  - Credibility is key
- Support is on-going and must not end
  - Market Actors must know they can call with questions
    - Technical
    - Marketing
    - Process
- Quality Assurance is part of credibility
- Data Management and Information flow
  - Simplicity
  - Consistency

GA 000230

Implementation
How do you sell it?

- Create CHEERS Registry
  - Password protected internet database
  - Use of technology is critical
- Simplify programs and processes
  - 'to-do' list for Raters
- Promotion of program
- Working with Building Departments
  - Raters are considered 'special inspectors'
- Work with firms that have similar programs

Current Environment

- Nearly 300 Raters statewide
  - Over 500 building departments have at least one rater in each jurisdiction – 95% of departments
- CHEERS Raters used for IOU administered Energy Star homes new construction program
- Alliances with two approved compliance software firms for electronic file transfers
- CHEERS Registry provides consistent data in XML file format

Tab 33

STATE OF CALIFORNIA

ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

DOCKET
08-CRI-1
DATE OCT 0 2 2008
RECD. OCT 0 2 2008

Complaint / Request for Investigation Regarding Energy Sense / MASCO	)	Docket Number 08-CRI-01

EFFICIENCY COMMITTEE ORDER SETTING DATES FOR PREHEARING CONFERENCE AND HEARING, AND REQUIRING THE PRODUCTION OF DOCUMENTS AND ADDITIONAL INFORMATION

Introduction and Summary

This order sets forth the dates for the prehearing conference and the hearing in this proceeding. This order also requires the parties to submit documents and responses to specific questions, in advance of the prehearing conference.

Background and Procedural History

On July 9, 2008, California Living & Energy and Duct Testers, Inc. (collectively, "complainants") filed a written complaint with the Energy Commission, pursuant to title 20, Section 1231 of the California Code of Regulations.[1]

By way of an Efficiency Committee ("Committee") order dated August 5, 2008, the complaint was served by certified mail on Energy Sense / MASCO Group of Companies and Subsidiaries (collectively, "respondents"), and via first class mail to interested parties. The return receipts show that respondents received the complaint on August 8, 2008. The order was also sent to those identified as interested parties in Appendix 2 of that order.

On August 28, 2008, the respondents filed with the Energy Commission a written answer to the complaint. Respondents denied they were in violation of the applicable regulations, and asserted several affirmative defenses to the allegations contained in the complaint.

[1] References to section numbers are to those in title 20 of the California Code of Regulations unless otherwise noted.

Scheduling of Prehearing Conference and Hearing Dates

Pursuant to Section 1234, subd. (a), the hearing in a complaint proceeding is to be held no later than 90 days after the date that the complaint is filed; in this proceeding, the hearing would need to occur by October 7, 2008. Section 1203, subd. (f), gives the Chairman the power, for good cause and upon proper notice, to shorten or lengthen the time required for compliance with any provision of title 20.

The Committee, of which the Chairman is a Member, finds that additional documentation from the parties is needed in order to evaluate the claims made in the complaint and the answer. Also, the Committee finds that directing specific questions to the parties, and receiving responses to those questions in advance of the hearing, will aid the decision-making process. The Committee wishes to provide the parties sufficient time to comply with all the requests for documents and to respond to all the questions posed, beyond the October 7, 2008, date.

Section 1208 allows the Presiding Member to schedule a conference with the parties at any time for the purpose of formulating the issues; organizing the questioning of witnesses; determining the number of witnesses; providing for the exchange of exhibits or prepared statements; and such other matters as may expedite the orderly conduct of the proceedings. The Committee finds that a prehearing conference in this matter is necessary to clearly understand and articulate the issues to be addressed in the hearing, ensure that all documents and other information have been provided, and address outstanding issues in advance of the hearing.

For these reasons, the Committee and the Chairman find good cause to extend the date of the hearing in this matter beyond the 90 days provided for in Section 1234, subd. (a). The dates of the prehearing conference and hearing are specified in the "Order" section, below.

Production of Documents and Responses to Questions; Opportunity to Submit Additional Information

Pursuant to Section 1203, subd. (a), the Chairman has the power to request and secure such information as is relevant and necessary in carrying out the purposes of any proceeding. Section 1675 also requires each HERS provider to provide all information specified by the Energy Commission in any complaint proceeding.

The Committee finds that certain documents, and the responses to specific questions, are needed to analyze the issues involved in this proceeding and to make

a determination in the matter. In particular, the required documents and responses will help the Committee to determine the precise nature of the relationship between the two respondents; the relationships between the respondents and individual builders, installers, and other contractors; and whether these relationships are a conflict of interest under the California Home Energy Rating System Program regulations.

Further, the Committee believes that it will be beneficial to allow any party to submit any additional information to the Energy Commission, before the date of the prehearing conference, which the party believes will assist the Committee in analyzing and deciding this matter. This order provides time for the parties to provide and review the additional information prior to the prehearing conference, and to prepare for the hearing.

Order

Pursuant to Section 1208, and the authority of the Chairman given by Section 1203, subd., (d), to set the time and place for hearings, the Committee orders the following dates, times, and locations for the prehearing conference and hearing in this matter:

Prehearing Conference

November 12, 2008, at 9:30 a.m.
Hearing Room A
California Energy Commission
1516 Ninth Street
Sacramento, California

Hearing

December 10, 2008, at 9:00 a.m.
Hearing Room A
California Energy Commission
1516 Ninth Street
Sacramento, California

Pursuant to Sections 1203, subd. (a), and 1675, the Committee directs the following documents to be provided, and the following questions answered, by the respectively-identified parties:

From the Respondents[2]:

1) Copies of all contracts between Masco Corporation ("Masco") and EnergySense, Inc. ("EnergySense");

2) Copies of all contracts between Energy Sense and builders;

3) Copies of contracts between Masco or any Masco-related company[3] that mentions completion of quality assurance by EnergySense or field verification for the purpose of Title 24 compliance.

4) Copies of any advertising or other informational materials provided to builders by any Masco-related company that identifies quality assurance or field verification provided by or through EnergySense.

5) Percentage of corporate voting shares that Masco owns, directly or indirectly through one or more of its related companies, of EnergySense;

6) Names of any persons that are employed as a board member or officer in more than one of the companies under the Masco corporate structure, including any Masco-related company;

7) Does Masco have corporate or other authority over EnergySense for any of the following:

   a. Selecting directors and corporate officers;

   b. Appointing a majority of the members of the governing board;

   c. Using or directing the use of the individual assets of EnergySense to achieve the objective of Masco;

---

[2] The Committee recognizes that partial answers to some of the questions are already contained in the respondents' answer to the complaint, but finds that the questions need be posed as written in order to obtain more complete answers.

[3] "Masco-related company" or "related company" means any parent, affiliate, or subsidiary company or entity of Masco, or any company or entity related to Masco by ownership interest. This includes, but is not limited to, those entities identified in lines 19 through 21 of page 2 of the respondents' answer to the complaint (i.e., Builder Services Group, Inc.; American National Services, Inc.; and Masco Contractor Services, Inc.).

d. Examination of financial reports and business plans, or otherwise hold accountable EnergySense and its management for performance expectations;

e. Voting provisions in the articles of incorporation of EnergySense, or provisions that prohibit amendments of said articles without the approval of Masco?

8) Did Masco prepare or authorize any of the bylaws of EnergySense defining the designation and authority of officers, their terms of office, and their removal (for cause or otherwise)?

9) Do the bylaws of EnergySense include procedures whereby Masco elects and removes directors of EnergySense, or prohibit amendments of its bylaws without the approval of Masco?

10) Does Masco or any Masco-related company have a debt agreement with EnergySense?

11) Does Masco or any Masco-related company have any employees who are also employees of EnergySense?

12) Does Masco or any Masco-related company, other than EnergySense, mention EnergySense in any written, verbal, radio, television, internet or e-mail advertising or information?

13) Does EnergySense mention Masco or any Masco-related company in any written, verbal, radio, television, internet or e-mail advertising or information?

14) Does Masco or any Masco-related company, other than EnergySense, provide customer referrals to EnergySense?

15) Does EnergySense provide customer referrals to Masco or any Masco-related company?

16) Does Masco or any Masco-related company, besides EnergySense, mention in bid responses or price sheets any services provided by EnergySense?

17) Does EnergySense mention in bid responses or price sheets any services provided by Masco or any Masco-related company?

From California Home Energy Efficiency Rating System (CHEERS):

1) Copies of all rater agreements between CHEERS and Energy Sense; between CHEERS and any EnergySense employee; between CHEERS and any other Masco-related company; between CHEERS and any Masco employee; and between CHEERS and any employee of a Masco-related company.

The documents listed, and written answers to the questions posed, in this order shall be received by the Energy Commission's Docket Unit no later than October 31, 2008. Further, if the complainants, respondents, or any other interested party to this proceeding wishes to submit additional, relevant information, they shall submit such information to the Dockets Unit by October 31, 2008.

Dated: October 2, 2008

ARTHUR H. ROSENFELD, Ph.D.
Commissioner
California Energy Commission
Presiding Member, Efficiency Committee

JACKALYNE PFANNENSTIEL
Chairman
California Energy Commission
Member, Efficiency Committee

BEFORE THE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION OF THE STATE OF CALIFORNIA

Complaint / Request for Investigation
REGARDING ENERGY SENSE / MASCO

DOCKET NO. 08-CRI-01
PROOF OF SERVICE LIST

INSTRUCTIONS: All parties shall (1) file a printed, original signed document plus 12 copies OR file one original signed document and e-mail the document to the Docket address below, AND (2) all parties shall also send a printed OR electronic copy of the document, plus a proof of service declaration, to each of the entities and individuals on the proof of service list:

CALIFORNIA ENERGY COMMISSION
Attn: DOCKET NO. 08-CRI-01
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512
docket@energy.state.ca.us

Ivor E. Sampson, Esq.
Sonnenschein Nath & Rosenthal
525 Market Street, 26th Floor
San Francisco, CA 94105-2708

California Living & Energy
Attn: Bill Lilly, President
3015 Dale Court
Ceres, CA 95307

Carol A. Davis
CHEERS Legal Counsel
3009 Palos Verdes Drive West
Palos Verde Estates, CA 90274

Certified Energy Consulting
Attn: John Richau, HERS Rater
4782 N. Fruit Avenue
Fresno, CA 93705

Duct Testers, Inc.
Attn: Dave Hegarty
P.O. Box 266
Ripon, CA 95366

Energy Inspectors
Attn: Galo LeBron, CEO
1036 Commerce Street, Suite B
San Marcos, CA 92078

ConSol
Attn: Mike Hodgson
7407 Tam O'Shanter Drive
Stockton, CA 95210-3370

California Certified Energy Rating & Testing Services (CalCERTS)
Attn: Mike Bachand
31 Natoma Street, Suite 120
Folsom, CA 95630

California Building Performance Contractors Association (CBPCA)
Attn: Randel Riedel
1000 Broadway, Suite 410
Oakland, CA 94607

California Home Energy Efficiency Rating System (CHEERS)
Attn: Robert Scott
20422 Beach Blvd.
Huntington Beach, CA 92648

ENERGY COMMISSION
Arthur H. Rosenfeld, Ph.D., Commissioner
Presiding Committee Member
arosenfe@energy.state.ca.us

Jackalyne Pfannenstiel, Chair
Associate Committee Member
jpfannen@energy.state.ca.us
cgraber@energy.state.ca.us

Dennis Beck
Staff Attorney
dbeck@energy.state.ca.us

Public Adviser
pao@energy.state.ca.us

DECLARATION OF SERVICE

I, Lynn Tien-Tran, deposited copies of the attached Efficiency Committee Order Setting Dates for Prehearing Conference and Hearing, and Requiring the Production of Documents and Additional Information in the United States mail on October 2, 2008, at Sacramento with first-class postage thereon fully prepaid and addressed to those identified on the Proof of Service list above.

OR

Transmission via electronic mail was consistent with the requirements of California Code of Regulations, title 20, sections 1209, 1209.5, and 1210. All electronic copies were sent to all those identified on the Proof of Service list above.

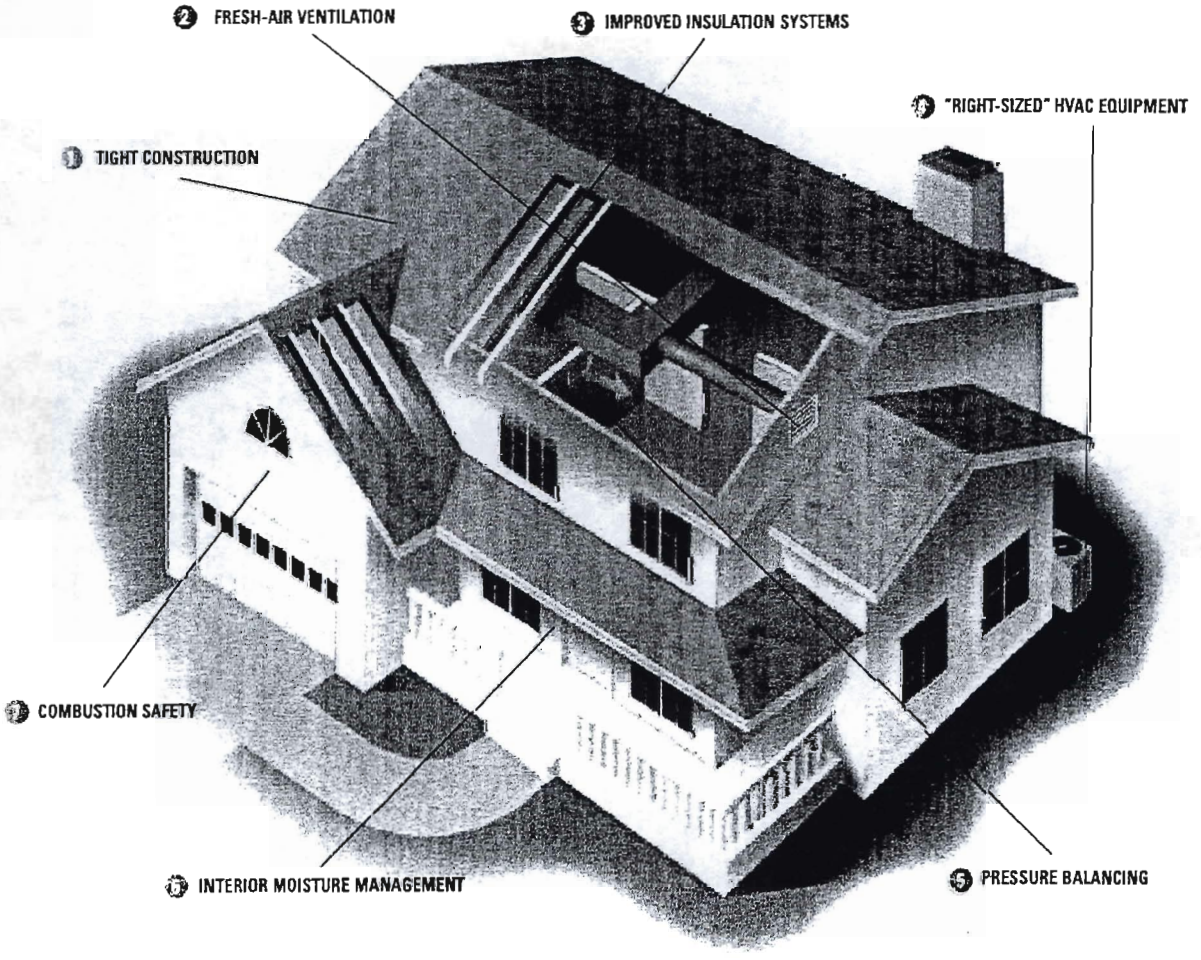
I declare under penalty of perjury that the foregoing is true and correct.

Tab 34

For 2005, Bath Unlimited is launching three new bath-accessory designs available to builders, architects and specifiers: an old-world style, a traditional design and a Southwest theme; and Hansgrohe introduced Citterio™, a new high-end line of faucets.

In Installation Services, MCS is installing a variety of new products, including closet organizers manufactured by other Masco operating companies. In addition, MCS introduced its new Diamond Class℠ Level for its Environments for Living® program, that offers significant improvements in comfort and energy savings to homeowners.

THE SEVEN PILLARS OF THE ENVIRONMENTS FOR LIVING® PROGRAM



GA 000253

Tab 35

EnergySense, Inc.

Directors

Eugene A. Gargaro, Jr. — **Director**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

John R. Leekley — **Director**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

John G. Sznewajs — **Director**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

Officers

David R Bell — **President**

Primary Address:

Eugene A. Gargaro, Jr. — **Vice President & Secretary**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

John G. Sznewajs — **Vice President, Treasurer & Assistant Secretary**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

Jerry W. Mollien — **Vice President**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

Lawrence F. Leaman — **Vice President**

Primary Address: 21001 Van Born Road

Kathy Howard — **Vice President**

Primary Address:

Barry J. Silverman — **Assistant Secretary**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

Carolyn M. Christian — **Assistant Secretary**

Primary Address: 21001 Van Born Road
Taylor, Michigan 48180

Corporate Leadership

CORPORATE OFFICERS

William T. Anderson
Vice President–Controller

Ronald W. Ayers
Group President

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

Maria C. Duey
Vice President–Investor Relations

Eugene A. Gargaro, Jr.
Vice President and Secretary

Charles F. Greenwood
Vice President–Human Resources

John R. Leekley
Senior Vice President and
General Counsel

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–Strategic Planning
and Group Vice President

Barry J. Silverman
Vice President–Associate
General Counsel

John G. Sznewajs
Vice President, Treasurer and
Chief Financial Officer

David W. Van Hise
Vice President–International

Jerry Volas
Group President

Thomas Voss
President–Masco Europe

Timothy Wadhams
President and
Chief Executive Officer

BOARD OF DIRECTORS

Dennis W. Archer [1, 3]
Chairman
Dickinson Wright PLLC

Thomas G. Denomme [1, 3]
Retired Vice Chairman and
Chief Administrative Officer
Chrysler Corporation

Peter A. Dow [1, 2]
Retired Vice Chairman, Chief Operating Officer and Executive Committee Chairman
Campbell-Ewald

Anthony F. Earley, Jr. [1, 3]
Chairman and Chief Executive Officer
DTE Energy Company

Verne G. Istock [1, 2, 3]
Retired Chairman and President
Bank One Corporation

David L. Johnston [2, 3]
President and Vice Chancellor
of the University of Waterloo
in Ontario, Canada

J. Michael Losh [1, 2]
Retired Chief Financial Officer
and Executive Vice President
General Motors Corporation

Richard A. Manoogian
Executive Chairman
Masco Corporation

Lisa A. Payne [1]
Vice Chairman and
Chief Financial Officer
Taubman Centers, Inc.

Mary Ann Van Lokeren [2, 3]
Retired Chairman and
Chief Executive Officer
Krey Distributing Company

Timothy Wadhams
President and
Chief Executive Officer
Masco Corporation

[1] *Member of Audit Committee*

[2] *Member of Organization and Compensation Committee*

[3] *Member of Corporate Governance and Nominating Committee*

GA 000111

Tab 36

Bill Lilly
President
California Living & Energy
3015 Dale Ct.
Ceres, California 95307
(209) 538-2879 x11
(209) 538-2885 Fax
bill.lilly@califliving.com
www.califliving.com
Saving the environment one house at a time
NOTICE: The information contained in this electronic message, including attachments, is covered by the Electronic Communications Privacy Act, 18 U.S.C. 2510-2521 and is confidential. It is to be conveyed only to the designated recipient(s) and may contain privileged information. Any unauthorized review, use, disclosure or distribution is prohibited. If you are not the intended recipient of this communication, please delete and destroy all copies. If you are the intended recipient of this communication, you should not copy, disclose or distribute this communication without the authority of California Living. Any views expressed in this communication are those of the individual sender, except where the sender specifically states them to be the views of California Living. Except as required by law, California Living does not represent, warrant or guarantee that the integrity of this communication has been maintained nor that the communication is free of errors, virus, interception or interference.

-----Original Message-----
From: Tav Commins [mailto:Tcommins@energy.state.ca.us]
Sent: Friday, July 14, 2006 3:45 PM
To: Bill Lilly
Subject: RE: 3 party Standard

Another fiasco begins.

The CHEERS board has not renewed Tom Hamilton□s contract as executive director effective Monday July 10, 2006. CHEERS will continue to operate and we plan to be an even stronger and more effective organization in the future. The CHEERS phone numbers and email addresses will remain unchanged.

We were working with Tom to take care of the problem.

I was out of the office all this week and will find out who will look into this issue at CHEERS.

Tav

>>> "Bill Lilly" <bill.lilly@califliving.com> 07/10/06 5:55 PM >>>
Tav
I will scan a hard copy and e-mail it. At that time Masco was planning on doing their own Energy Star testing as a 3rd party rater under their EFL banner. I thought at that time since Masco was doing their own installation that the 3rd party rater issue would end with Bill's letter. It did end but resurfaced with a different twist.
Thanks
Bill

Bill Lilly
President
California Living & Energy
3015 Dale Ct.
Ceres, California 95307

Tab 37

A7
Supporting e-mail

bill

From: "Bill Pennington" <Bpenning@energy.state.ca.us>
To: <blilly@californialivingenergy.com>
Cc: "John Eash" <Jeash@energy.state.ca.us>
Sent: Sunday, October 06, 2002 10:17 AM
Subject: Re: Re:

Independent third party field verification is required for measures in the Standards that require such verification. The MASCO quality control process does not satisfy this requirement.

>>> "bill" <blilly@californialivingenergy.com> 10/05/02 02:23PM >>>
Bill
It has been several months since you e-mailed me regarding your inquiry into Masco's program in response to my concern for what I believe is clearly (and legally) a conflict of interest. You stated that you are waiting for an explanation from Masco. Have you received it yet?
Bill, the market is changing quickly, please let me know as soon as possible what your decision is.
Sincerely
Bill Lilly
California Living & Energy
(209)538-2879
(949)250-1165
(209)538-2885 Fax

----- Original Message -----
From: Bill Pennington
To: blilly@californialivingenergy.com ; thamilton@cheers.org
Cc: bholbrook@californialivingenergy.com ; John Eash ; Rob Hudler ; martyn@energysoft.com ; WHughes@smud.org ; billm@soldata.com
Sent: Wednesday, June 26, 2002 3:56 PM
Subject: Re:

Commission staff is awaiting a letter from MASCO explaining their process. When that arrives we will decide how it relates to the conflict of interest rules.

>>> "blilly" <blilly@californialivingenergy.com> 06/26/02 10:30AM >>>
Tom
Thank you, I value your help tremendously. This helps alot.
Sincerely
Bill

California Living & Energy
3649 Mitchell Rd Suite C
Ceres, California 95307
(209) 538-2879
(209)538-2885 Fax
califliving@afo.net

----- Original Message -----
From: Tom Hamilton
To: blilly ; Bill Pennington
Cc: Bill Mattinson ; bill holbrook ; Martyn Dodd ; Rob Hudler ; Wade Hughes
Sent: Wednesday, June 26, 2002 8:43 AM
Subject: RE:

Bill

Here is my 2cents on the matter. I am not sure what Environments for Living is. I assume it is a program that is sponsored by Masco, not by the CEC, DOE, or EPA. As such Masco can do what they want as long as the program does not involve any HERS required verifications according to the CEC guidelines. If the builder uses any measure to reach T-24 or Energy Star that requires HERS verification (TXV, ducts, etc) then they

Tab 38

From: "Bill Lilly" <bill.lilly@califliving.com>
To: "Bill Pennington" <Bpenning@energy.state.ca.us>
Date: 3/31/2006 12:08:31 PM
Subject: 3rd party violation

Bill
In October of 2002 you wrote me stating that "... The MASCO quality control process does not satisfy this requirement." With your response I mistakenly thought that this situation would not come up again. Well, it has.
Another part of the 3rd party agreement state"...HERS raters cannot have any financial interest in the Builder's or contractor's business...". This is exactly what is happening in Pulte's Altura project in San Jose and Toscana and Avondale @ Mountain House. Coast Building Products (an insulation company) has the independent 3rd party agreement for Altura. Coast is installing and repairing their products on this project therefore are not independent. They have a financial interest in this project and can not be classified as independent 3rd party. Suppose (this is make believe and will never happen) the Builder said unless you pass this house you may not get the next sub-contract for the next phase.
As you can see in this e-mail I told Pulte I will contact the CEC regarding this violation and I left the items concerning this for your review.
I am going to send this to you by snail mail to illustrate the importance of this matter. Several years ago MASCO offered to buy my firm and in my opinion to control the market, it was no then and it is still no.
See 2nd issue and 3rd issue in my e-mail to Robert Dauth
Thanks
Bill

Bill Lilly
President
California Living & Energy
3015 Dale Ct.
Ceres, California 95307
(209) 538-2879 x11
(209) 538-2885 Fax
bill.lilly@califliving.com
www.califliving.com
-----Original Message-----
From: Bill Lilly [mailto:bill.lilly@califliving.com]
Sent: Friday, March 10, 2006 12:44 PM
To: Robert Dauth; Deb Heden; Gary Oertel
Cc: Rich Giometti; Jeff; Dick; Anita; Larry Stubbert; Bill Holbrook
Subject: RE: Altura bid & 3rd party

Robert
I thought the issue regarding 3rd party testing was resolved when Bill Pennington at the CEC ruled against Masco's EFL system several years. This is a little different in form then the previous ruling therefore I will need get confirmation from the CEC. Thanks for the understanding