UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2020

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

For the transition period from ______ to______

Commission file number 1-35166

Fortune Brands Home & Security, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**62-1411546**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

520 Lake Cook Road, Deerfield, IL 60015-5611
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (847) 484-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Trading Symbols(s)**	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	FBHS	New York Stock Exchange

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company ☐
Emerging growth company	☐					

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the registrant's voting common equity held by non-affiliates of the registrant at June 30, 2020 (the last day of the registrant's most recent second quarter) was $8,785,219,109. The number of shares outstanding of the registrant's common stock, par value $0.01 per share, at February 5, 2021, was 138,666,262.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant's proxy statement for its Annual Meeting of Stockholders to be held on May 4, 2021 (to be filed not later than 120 days after the end of the registrant's fiscal year) (the "2021 Proxy Statement") is incorporated by reference into Part III hereof.

Form 10-K Table of Contents

		Page
PART I		
Item 1.	Business.	1
Item 1A.	Risk Factors.	7
Item 1B.	Unresolved Staff Comments.	12
Item 2.	Properties.	12
Item 3.	Legal Proceedings.	12
Item 4.	Mine Safety Disclosures.	12
	Information about our Executive Officers	12
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	13
Item 6.	Selected Financial Data.	15
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	16
	Results of Operations	18
	Liquidity and Capital Resources	20
	Critical Accounting Policies and Estimates	24
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk.	29
Item 8.	Financial Statements and Supplementary Data.	29
	Notes to Consolidated Financial Statements	38
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	71
Item 9A.	Controls and Procedures	71
Item 9B.	Other Information	71
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	71
Item 11.	Executive Compensation	72
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	72
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	72
Item 14.	Principal Accountant Fees and Services.	72
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	72
Item 16.	Form 10-K Summary	74
Signatures		75
Schedule II Valuation and Qualifying Accounts		76

PART I

Item 1. Business.

Cautionary Statement Concerning Forward-Looking Statements

This Annual Report on Form 10-K contains certain "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding the expected or potential impact of the novel coronavirus pandemic ("COVID-19") on our business, operations or financial condition in addition to statements regarding our general business strategies, anticipated market potential, future financial performance, the potential of our brands expected capital spending, expected pension contributions, the anticipated effects of recently issued accounting standards on our financial statements, planned business strategies, market potential, future financial performance and other matters. Statements that include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the expectations, estimates, assumptions and projection about our industry, business and future financial results available at the time this report is filed with the Securities and Exchange Commission (the "SEC") or, with respect to any documents incorporated by reference, available at the time such document was prepared or filed with the SEC. Although we believe that these statements are based on reasonable assumptions, they are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those indicated in such statements. These factors include those listed in the section below entitled "Risk Factors." Except as required by law, we undertake no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or changes to future results over time or otherwise, except as required by the law.

Unless the context otherwise requires, references in this Annual Report on Form 10-K to "Fortune Brands," the "Company," "we," "our" or "us" refer to Fortune Brands Home & Security, Inc. and its consolidated subsidiaries.

Our Company

We are a leading home and security products company that competes in attractive long-term growth markets in our product categories. With a foundation of market-leading brands across a diversified mix of channels and lean and flexible supply chains, as well as a tradition of strong product innovation and customer service, we are focused on outperforming our markets in both growth and returns and driving increased stockholder value. As a manufacturer, conducting business ethically is a priority for our businesses. We continue to look for ways to improve our environmental, social and governance ("ESG") programs and practices by focusing on ways to improve water conservation, waste reduction and carbon and climate impact, keeping our employees safe and creating a culture where all employees are treated with dignity and respect. We believe that advancing ESG initiatives are critical to making sure we continue to serve our customers with products that meet their needs.

We continue to have three business segments: Plumbing, Outdoors & Security and Cabinets. In the fourth quarter of 2020, our Doors & Security segment was renamed "Outdoors & Security" to better align with the segment's strategic focus on the fast-growing outdoor living space and to better represent the brands within the segment, including the newly acquired Larson Manufacturing ("Larson"). The Outdoors & Security segment name change is to the name only and had no impact on the Company's historical financial position, results of operations, cash flow or segment level results previously reported.

We sell our products through a wide array of sales channels, including kitchen and bath dealers, wholesalers oriented toward builders or professional remodelers, industrial and locksmith distributors, "do-it-yourself" remodeling-oriented home centers, e-commerce and other retail outlets Despite increased pressures on commodity and logistics costs driven in part by tariffs, higher commodity costs and COVID-19, our performance during 2020 demonstrates the strength of our operating model and our ability to generate profitable growth as sales volume increases and we leverage our structural competitive advantages to gain share in our categories. We believe the Company's impressive track record reflects the long-term attractiveness and potential of our categories and our leading brands.

Our Strategy

Build on leading business and brand positions in attractive growth and return categories. We believe that we have leading market positions and brands in many of our product categories in the United States. In 2020, we expanded further into the outdoor living market by acquiring Larson, the leading brand of storm, screen and security doors in North America. Larson's suite of products creates a bridge from the inside to the outside of the home, and further strengthens the products offered by our Outdoors & Security segment. During 2020 and since acquiring Fiber Composites LLC ("Fiberon") in 2018, we significantly expanded our distribution partnerships for our Fiberon brand in the U.S., including a major new distribution partnership with

Orepac. In addition, our Cabinets segment continued to focus on growth initiatives in the value priced segments of the market. In Plumbing, we continued to grow our brand presence in our ”entry-level” demographics including millennial home buyers.

Continue to develop innovative products for customers, designers, installers and consumers. Sustained investments in consumer-driven product innovation and customer service, along with our low-cost structures, have contributed to our success in the marketplace and to gain share in our product categories. In 2020, our Global Plumbing Group (“GPG”) continued to develop products with our partners in the “whole home” and “smart home” water category including the Flo by Moen Smart Water Detector and U by Moen Smart Faucet. GPG also continued to work with partners in 2020 to develop new technologies and designs such as the Nebia by Moen spa shower and aromatherapy handshowers. In 2020, MasterBrand Cabinets, which provides a wide range of cabinets for the home, focused on the shift in the marketplace toward stock cabinetry by introducing its value-priced cabinet line into the U.S. Southwest region. In Cabinets, we continued to develop innovative new cabinet door designs, cabinet lighting systems, color palettes and features in a range of styles that allow consumers to create a custom kitchen look at an affordable price and introduced new, exclusive laminate door and finish options across multiple price segments. We continue to provide channel support with responsive websites featuring our cabinet brands that drives consumers to our partner/third-party dealers. The Therma-Tru portfolio of fashionable door and glass collections continues to evolve to meet current and emerging architectural design trends. In 2020, Fiberon expanded its offering of premium PVC decking products and also brought new products to its railing category. Master Lock continued to be an innovation leader in security and safety products and services, driven by consumer and end user focused insights with continued emphasis on electronic enabled solutions for enhanced capability and convenience. SentrySafe continued to provide a full portfolio of quality security, fire and water resistant safes to help consumers and small business owners protect documents and valuables.

Expand in international markets. We expect to have opportunities to expand sales by further penetrating international markets, which represented approximately 16% of net sales in 2020. We continue to develop our relationship with dealers and distributors and their Moen-branded stores throughout China. In our Cabinets segment, WoodCrafters introduced a variety of cabinetry products in Mexico.

Leverage our global supply chains. We are using lean manufacturing, design-to-manufacture and distributive assembly techniques to make our supply chains more flexible and improve supply chain quality, cost, response times and asset efficiency. We view our global supply chains and manufacturing presence as a strategic asset not only to support strong operating leverage as volumes increase, but also to enable the profitable growth of new products, adjacent market expansion and international growth. We believe our flexible supply chain will enable us to compete effectively during and after the COVID-19 pandemic.

Enhance returns and deploy our cash flow to high-return opportunities. We continue to believe our most attractive opportunities are to invest in profitable organic growth initiatives, pursue accretive strategic acquisitions, non-controlling equity investments, and joint ventures, and return cash to stockholders through a combination of dividends and repurchases of shares of our common stock. In 2020, we repurchased approximately 2.9 million shares of our outstanding common stock under the Company’s share repurchase program for $187.6 million and returned $133.3 million to stockholders through dividends. In December 2020, we acquired Larson, providing category expansion and product extension opportunities in the outdoor living space for our Outdoors & Security segment.

Invest in ESG initiatives that positively impact our employees and community and conduct business responsibly. As a manufacturer, conducting business ethically is a priority for our businesses. We believe that holding our team, our suppliers and the products that we deliver to a high set of standards strengthens our company and builds a foundation for lasting success and stockholder value creation. Employee safety is also a priority for our businesses and our emphasis on it has yielded strong results over time with fewer recordable incidents and lower lost time rates. Our Company enhanced our safety protocols and practices to provide safe workplaces for our employees during COVID-19. In 2020, we also took steps to raise awareness and build a more diverse, equitable and inclusive organization through training, inclusive culture councils and employee resource groups.

Our Competitive Strengths

We believe our competitive strengths include the following:

Leading brands. We have leading brands with sustainable competitive advantages in many of our product categories in the U.S. and China. We believe that established brands are meaningful to both consumers and trade customers in their respective categories and that we have the opportunity to, among other things, gain share in the marketplace and continue to strengthen many of our brands through cross-branding, expanding into adjacent product categories, and growing in international and e-commerce markets.

Strategic focus on attractive consumer-facing categories. We believe we operate in categories that, while very competitive, are among the more attractive categories in the home products and security products markets. Some of the key characteristics that make these categories attractive in our view include the following:

- product quality, innovation, fashion, finish, durability and functionality, which are key determinants of product selection in addition to price;
- established brands, which are meaningful to both consumers and trade customers;
- the opportunity to add value to a complex consumer purchasing decision with excellent service propositions, reliability of products, ease of installation and superior delivery lead times;
- the value our products add to a home, particularly with kitchen and bath remodeling and additions offered by our Plumbing and Cabinet products, the curb appeal offered by stylish entry door systems and the expanding outdoor living market offered through our Fiberon and Larson brands;
- favorable long-term trends in household formations that benefit the outlook for our markets over time;
- the relatively stable demand for plumbing and security products; and
- the opportunity to expand into adjacent categories.

Operational excellence. In 2020, we invested approximately $87.1 million to support long-term growth potential and new products both in the U.S. and international markets. In addition, our supply chains and low cost manufacturing structures allow us to adapt to challenging market conditions, including the impact from COVID-19 and tariffs. We believe that margin improvement will continue to be driven predominantly by organic volume growth accommodated by current production capacity, prioritized investments in higher growth areas, and leveraging best practices across our brands.

Commitment to innovation. We have a long track record of successful product and process innovations that introduce valued new products to our customers and consumers. We are committed to continuing to invest in new product development and enhance customer service to strengthen our leading brands and penetrate adjacent markets.

Diverse sales end-use mix. We sell in a variety of product categories and sales channels in the U.S. home and security products markets. In addition, our exposure to changing levels of U.S. residential new home construction activity is balanced with repair and remodel activity, which comprised a substantial majority of the overall U.S. home products market and about two-thirds of our U.S. home products sales in 2020. We also benefit from a stable market for plumbing and security products and international sales growth opportunities.

Strong sales and distribution channels. We sell through a wide array of sales channels, including kitchen and bath dealers, wholesalers oriented to builders or professional remodelers, industrial and locksmith distributors, “do-it-yourself” remodeling-oriented home centers, e-commerce and other retail outlets. We are able to leverage these existing sales channels to expand into adjacent product categories. In 2020, sales to our top ten customers represented less than half of total sales.

Leveraging cross-company experience. Our business segments are focused on distinct product categories and are responsible for their own performance while Operating Councils across our brands share best practices and common core capabilities. This structure enables each of our segments to independently best position itself within each category in which it competes, while gaining the benefit of cross-company synergies. This structure also reinforces strong accountability for operational and financial performance. Each of our segments focuses on its unique set of consumers, customers, competitors and suppliers, while also sharing best practices.

Strong capital structure. We exited 2020 with a strong balance sheet. As of December 31, 2020, we had $419.1 million of cash and cash equivalents and total debt was $2,572.2 million, resulting in a net debt position of $2,153.1 million. In addition, we had $865.0 million available under our credit facilities as of December 31, 2020.

Business Segments

We have three business segments: Plumbing, Outdoors & Security and Cabinets. In the fourth quarter of 2020, our Doors & Security segment was renamed "Outdoors & Security" to better align with the segment's strategic focus on the fast-growing outdoor living space and to better represent the brands within the segment, including the newly acquired Larson. The Outdoors & Security segment name change had no impact on the Company's historical financial position, results of operations, cash flow or segment level results previously reported. The following table shows net sales for each of these segments and key brands within each segment:

Segment		2020 Net Sales (in millions)	Percentage of Total 2020 Net Sales	Key Brands
Plumbing	$	2,202.1	36.2%	Moen, ROHL, Riobel, Victoria +Albert, Perrin & Rowe, Shaws
Outdoors & Security		1,419.2	23.3%	Therma-Tru, Larson, Master Lock, Fiberon, SentrySafe, Fypon, American Lock
Cabinets		2,469.0	40.5%	Aristokraft, Diamond Now, Mid-Continent, Homecrest, Kitchen Craft, Omega, EVE, Diamond Reflections, Diamond, Kemper, Schrock, Starmark, Ultracraft, Mantra
Total	$	6,090.3	100.0%	

Our segments compete on the basis of innovation, fashion, quality, price, service and responsiveness to distributor, retailer and installer needs, as well as end-user consumer preferences. Our markets are very competitive. Approximately 16% of 2020 net sales were to international markets, and sales to two of the Company's customers, The Home Depot, Inc. ("The Home Depot") and Lowe's Companies, Inc. ("Lowe's"), each accounted for more than 15% of the Company's net sales in 2020. Sales to all U.S. home centers in the aggregate were approximately 31% of net sales in 2020.

Plumbing. Our Plumbing segment manufactures or assembles and sells faucets, accessories, kitchen sinks and waste disposals, predominantly under the Moen, ROHL, Riobel, Victoria+Albert, Perrin & Rowe and Shaws brands. Although this segment sells products principally in the U.S., China and Canada, this segment also sells in Mexico, Southeast Asia, Europe and South America. Approximately 31% of 2020 net sales were to international markets. This segment sells directly through its own sales force and indirectly through independent manufacturers' representatives, primarily to wholesalers, home centers, mass merchandisers and industrial distributors. In aggregate, sales to The Home Depot and Lowe's comprised approximately 25% of net sales of the Plumbing segment in 2020. This segment's chief competitors include Masco, Kohler, LIXIL Group, InSinkErator (owned by Emerson Electronic Company) and imported private-label brands.

Outdoors & Security. Our Outdoors & Security segment manufactures and sells fiberglass and steel entry door systems under the Therma-Tru brand name, storm, screen and security doors under the Larson brand name, composite decking and railing under the Fiberon brand name, and urethane millwork under the Fypon brand name. It also manufactures, sources and distributes locks, safety and security devices, and electronic security products under the Master Lock and American Lock brands and fire resistant safes, security containers and commercial cabinets under the SentrySafe brand. This segment sells products principally in the U.S., Canada, Europe, Central America, Japan and Australia. Approximately 11% of 2020 net sales were to international markets. This segment's principal customers are home centers, hardware and other retailers, millwork building products and wholesale distributors, and specialty dealers that provide products to the residential new construction market, as well as to the remodeling and renovation markets. In addition, it sells lock systems and fire resistant safes to locksmiths, industrial and institutional users, and original equipment manufacturers. In aggregate, sales to The Home Depot and Lowe's comprised approximately 26% of net sales of the Outdoors & Security segment in 2020. Therma-Tru, Larson, Fiberon and Fypon brands compete with Masonite, JELD-WEN, Andersen, Trex, Azek, Plastpro, Pella and various regional and local suppliers. The Master Lock brand competes with Abus, W.H. Brady, Hampton, Allegion, Assa Abloy and various imports. The SentrySafe brand competes with Magnum, Fortress and Interlocks.

Cabinets. Our Cabinets segment manufactures high quality stock, semi-custom and custom cabinetry, as well as vanities, for the kitchen, bath and other parts of the home through a regional supply chain footprint to deliver high quality cabinets and service to our customers. This segment sells a portfolio of brands that enable our customers to differentiate themselves against competitors. This portfolio includes brand names such as, Aristokraft, Diamond Now, Mid-Continent, Homecrest, Kitchen Craft, Omega, EVE, Diamond Reflections, Diamond, Kemper, Schrock, Starmark, Ultracraft and Mantra. Substantially all of this segment's sales are in North America. This segment sells directly to kitchen and bath dealers, home centers, wholesalers and large builders. In aggregate, sales to The Home Depot and Lowe's comprised approximately 38% of net sales of the Cabinets segment in 2020. This segment's competitors include Cabinetworks Group (formerly ACPI) and American Woodmark, as well as a large number of overseas, regional and local suppliers.

For additional financial information for each of our business segments, refer to Note 18, “Information on Business Segments,” to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Other Information

Raw materials. The table below indicates the principal raw materials used by each of our segments. These materials are available from a number of sources. Volatility in the prices of commodities and energy used in making and distributing our products impacts the cost of manufacturing our products.

Segment	Raw Materials
Plumbing	Brass, zinc, resins, stainless steel and aluminum
Outdoors & Security	Wood, resins, steel, glass, plastics, aluminum and insulating foam
Cabinets	Hardwoods (maple, birch and oak), plywood and particleboard

Intellectual property. Product innovation and branding are important to the success of our business. In addition to the brand protection offered by our trademarks, patent protection helps distinguish our unique product features in the market by preventing copying and making it more difficult for competitors to benefit unfairly from our design innovation. We hold U.S. and foreign patents covering various features used in products sold within all of our business segments. Although each of our segments relies on a number of patents and patent groups that, in the aggregate, provide important protections to the Company, no single patent or patent group is material to any of the Company’s segments.

Human Capital Resources. As of December 31, 2020, Fortune Brands had approximately 27,500 full-time and part-time employees worldwide (excluding contract workers). Approximately 77% of our workforce is composed of hourly production associates and the remaining population is composed of associates in a professional role. Approximately 15% of employees in the U.S. work under collective bargaining agreements. Below is a summary of the number of employees by segment and role:

Segment	*Production Hourly*	*Professional*	*Total*
Plumbing	2,478	1,998	4,476
Outdoors & Security	5,132	1,904	7,036
Cabinets	13,497	2,370	15,867
Corporate	—	126	126

Our employees are our greatest asset. The Company endeavors to create an environment that keeps our employees safe, treats them with dignity and respect and fosters a culture of performance. Fortune Brands does this through the programs summarized below, the objectives and related risks of each is overseen by our Board of Directors or one of its committees.

Health and Safety

Safety is a critical element to Fortune Brands’ growth strategy, integral to Company culture and one of our core values. Our Employee Safety & Environmental Stewardship Principles set standards for how we maintain a safe work environment and guides our business operations. The Company also has an Environmental, Health & Safety Leadership council comprised of representatives from across the Company’s businesses that share best practices and is responsible for driving environmental, health and safety strategy. This helps drive our best-in-class programs designed to reinforce positive behaviors, empower our employees to actively take part in maintaining a safe work environment, to heighten awareness and mitigate risk on critical safety components. Within each of our manufacturing and distribution facilities, we have site-specific safety and environmental plans designed to reduce risk.

COVID-19 Safety

Our safety focus was demonstrated in our response to the COVID-19 pandemic when we quickly acted to enhance our safety protocols and practices to provide safer workplaces for our associates and continue to operate our businesses during the pandemic.

During the early stages of the COVID-19 pandemic, Fortune Brands formed an organization-wide, cross-functional COVID-19 project management team to coordinate the Company's overall response and to make decisions that protect the safety and well-being of our employees. This team led efforts to develop and monitor business continuity plans and shared best practices so that the entire Company could benefit from our collective experiences.

Our U.S. factory workers were generally deemed essential by the states where we operate and as a result, except for limited short term plant shut downs, our plants in the U.S. remained open throughout 2020. In addition, most of our plants outside of the U.S. remained open in 2020. Some of the ways that Fortune Brands' enhanced employee safety during COVID-19:

- Established physical distancing procedures for our production employees by adding extra shifts, staggering start and finish times and increasing space or adding barriers between stations;
- Implemented temperature screening and health checks and mandated face coverings at the majority of our manufacturing facilities;
- Adjusted attendance policies to encourage those who are sick to stay home and required associates to work remotely when possible.

The Company also enhanced benefit programs during COVID-19 to provide a leave of absence for COVID-19 related time off and provided telemedicine benefits at no cost to employees for four months. The Company also provided access to COVID-19 testing and amended its 401(k) savings plan to enhance hardship distributions and loan eligibility and repayment terms.

Attracting and Retaining Superior Talent

Total Rewards

As part of our compensation philosophy, we believe that we must offer and maintain market competitive total rewards program for our employees in order to attract and retain superior talent. These programs not only include base wages and performance based incentives, but also health, welfare and retirement benefits.

Creating a Culture of Diversity, Equity and Inclusion ("DEI")

We strive to have an inclusive culture and diverse workforce, reflective of our consumers and communities. We believe that attracting and retaining talented and diverse employees will enable us to be more innovative, responsive to consumer needs and deliver strong performance and growth. In 2020, we took multiple actions to support an inclusive culture and increase representation and engagement of underrepresented associates.

In 2020, Fortune Brands joined the CEO Action for Diversity & Inclusion. We also implemented an unconscious bias learning program to the most senior leaders across the organization to increase DEI awareness and break bias in the decision making process, and plan to roll it out to more associates in the coming year. We also established a key partnership with Network of Executive Women to help focus on the development and advancement of women. These actions supplemented the Company's (i) inclusive culture councils which are responsible for setting priorities and initiatives that support an inclusive work environment, and (ii) employee resource groups that support diversity, equity, and inclusion initiatives, provide networking and professional development opportunities.

Talent Development and Succession

We aim to inspire and equip our associates to be successful in their current role within the organization and help them to develop the skills to build on opportunities to grow their career. We understand our most critical roles that serve as points of leverage to deliver value and place our best people in those roles, while attracting new talent and capabilities in support of continuous improvement in all we do. Fortune Brands uses performance management programs to support a high-performance culture, strengthening our employee engagement and helping to retain our top talent. The Company provides associates with relevant skills training and provides leadership training for production associates in a supervisory role and mid-level professional associates. The Company also makes a significant investment in assessing our talent against the jobs both in the near term and in the future state and ensuring our leaders are prepared for greater levels of responsibility and can successfully transition into new roles.

Succession planning for critical roles is an important part of our talent program. Succession and development plans are created and monitored to ensure progress is made along established timelines.

Seasonality. All of our operating segments traditionally experience lower sales in the first quarter of the year when new home construction, repair and remodel activity and security buying are at their lowest. As a result of sales seasonality and associated timing of working capital fluctuations, our cash flow from operating activities is typically higher in the second half of the year.

Environmental matters. We are involved in remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of future environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. Several of our subsidiaries have been designated as potentially responsible parties ("PRP") under "Superfund" or similar state laws. As of December 31, 2020, ten such instances have not been dismissed, settled or otherwise resolved. In 2020, none of our subsidiaries were identified as a PRP in a new instance and no instances were settled, dismissed or otherwise resolved. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe that the cost of complying with the present environmental protection laws, before considering estimated recoveries either from other PRPs or insurance, will not have a material adverse effect on our results of operations, cash flows or financial condition. At December 31, 2020 and 2019, we had accruals of $0.3 and $0.2 million, respectively, relating to environmental compliance and cleanup including, but not limited to, the above mentioned Superfund sites.

Legal structure. Fortune Brands Home & Security, Inc. is a holding company that was initially organized as a Delaware corporation in 1988. Wholly-owned subsidiaries of the Company include MasterBrand Cabinets, Inc., Fortune Brands Global Plumbing Group LLC, Fortune Brands Doors, Inc. and Fortune Brands Storage & Security LLC. As a holding company, we are a legal entity separate and distinct from our subsidiaries. Accordingly, the rights of the Company, and thus the rights of our creditors (including holders of debt securities and other obligations) and stockholders to participate in any distribution of the assets or earnings of any subsidiary is subject to the claims of creditors of the subsidiary, except to the extent that claims of the Company itself as a creditor of such subsidiary may be recognized, in which event the Company's claims may in certain circumstances be subordinate to certain claims of others. In addition, as a holding company, the source of our unconsolidated revenues and funds is dividends and other payments from subsidiaries. Our subsidiaries are not limited by long-term debt or other agreements in their abilities to pay cash dividends or to make other distributions with respect to their capital stock or other payments to the Company.

Available Information. The Company's website address is www.FBHS.com. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports are available free of charge on the Company's website as soon as reasonably practicable after the reports are filed or furnished electronically with the SEC. Reports filed with the SEC are also made available on its website at www.sec.gov. We also make available on our website, or in printed form upon request, free of charge, our annual ESG report, Corporate Governance Principles, Code of Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, Charters for the Committees of our Board of Directors and certain other information related to the Company.

Item 1A. Risk Factors.

There are inherent risks and uncertainties associated with our business that could adversely affect our business, financial condition or operating results. Set forth below are descriptions of those risks and uncertainties that we currently believe to be material, but the risks and uncertainties described below are not the only risks and uncertainties that could adversely affect our business, financial condition or operating results. If any of these risks materialize, our business, financial condition or operating results could suffer. In this case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Industry Risks

Our business primarily relies on North American home improvement, repair and remodel and new home construction activity levels, all of which are impacted by risks associated with fluctuations in the housing market. Downward changes in the general economy, the housing market or other business conditions could adversely affect our results of operations, cash flows and financial condition.

Our business primarily relies on home improvement, repair and remodel, and new home construction activity levels, principally in North America. The housing market is sensitive to changes in economic conditions and other factors, such as the level of employment, access to labor, consumer confidence, demographic changes, consumer income, government tax programs, availability of financing and interest rate levels. Adverse changes in any of these conditions generally, or in any of the markets where we operate, could decrease demand and could adversely impact our businesses by: causing consumers to delay or decrease homeownership; making consumers more price conscious resulting in a shift in demand to smaller, less expensive homes; making consumers more reluctant to make investments in their existing homes, including large kitchen and bath repair and remodel projects; or making it more difficult to secure loans for major renovations.

We operate in very competitive consumer and trade brand categories.

The markets in which we operate are very competitive. Although we believe that competition in our businesses is based largely on product quality, consumer and trade brand reputation, customer service and product features, as well as fashion trends, innovation and ease of installation, price is a significant factor for consumers as well as our trade customers. Some of our competitors may resort to price competition to sustain or grow market share and manufacturing capacity utilization. Also, certain large customers continue to offer private-label brands that compete with some of our product offerings as a lower-cost alternative. We also face pressure from imported ‘flat pack’ cabinets. The strong competition that we face in all of our businesses may adversely affect our profitability and revenue levels, as well as our results of operations, cash flows and financial condition.

We may not successfully develop new products or processes or improve existing products or processes.

Our success depends on meeting consumer needs and anticipating changes in consumer preferences with successful new products and product improvements. We aim to introduce products and new or improved production processes proactively to offset obsolescence and decreases in sales of existing products. We may not be successful in product development and our new products may not be commercially successful. In addition, it is possible that competitors may improve their products or processes more rapidly or effectively, which could adversely affect our sales. Furthermore, market demand may decline as a result of consumer preferences trending away from our categories or trending down within our brands or product categories, which could adversely impact our results of operations, cash flows and financial condition.

Our businesses rely on the performance of wholesale distributors, dealers and other marketing arrangements and could be adversely affected by poor performance or other disruptions in our distribution channels and customers.

We rely on a distribution network comprised of consolidating customers. Any disruption to the existing distribution channels could adversely affect our results of operations, cash flows and financial condition. The consolidation of distributors or the financial instability or default of a distributor or one of its major customers could potentially cause such a disruption. In addition to our own sales force, we offer our products through a variety of third-party distributors, representatives and retailers. Certain of our distributors, representatives or retailers may also market other products that compete with our products. The loss or termination of one or more of our major distributors, representatives or retailers, the failure of one or more of our distributors, representatives or retailers to effectively promote our products, or changes in the financial or business condition of these distributors, representatives or retailers could adversely affect our ability to bring products to market.

Operational and Sourcing Risks

Risks associated with our ability to improve organizational productivity and global supply chain efficiency and flexibility could adversely affect our results of operations, cash flows and financial condition.

We regularly evaluate our organizational productivity and global supply chains and assess opportunities to increase capacity, reduce costs and enhance quality. We may be unable to enhance quality, speed and flexibility to meet changing and uncertain market conditions, as well as manage cost inflation, including wages, pension and medical costs. Our success depends in part on refining our cost structure and supply chains to promote consistently flexible and low cost supply chains that can respond to market changes to protect profitability and cash flow or ramp up quickly and effectively to meet demand. Import tariffs could potentially lead to increases in prices of raw materials or components which are critical to our business. Failure to achieve the desired level of quality, capacity or cost reductions could impair our results of operations, cash flows and financial condition.

Risks associated with global commodity and energy availability and price volatility, as well as the possibility of sustained inflation, could adversely affect our results of operations, cash flows and financial condition.

We are exposed to risks associated with global commodity price volatility arising from restricted or uneven supply conditions, the sustained expansion and volatility of demand from emerging markets, potentially unstable geopolitical and economic variables, weather and other unpredictable external factors. We buy raw materials that contain commodities such as brass, zinc, steel, wood, glass and petroleum-based products such as resins. In addition, our distribution costs are significantly impacted by the price of oil and diesel fuel. Decreased availability and increased or volatile prices for these commodities, as well as energy used in making, distributing and transporting our products, could increase the costs of our products. While in the past we have been able to mitigate the impact of these cost increases through productivity improvements and passing on increasing costs to our customers over time, there is no assurance that we will be able to offset such cost increases in the future, and the risk of potentially sustained high levels of inflation could adversely impact our results of operations, cash flows and financial condition. While we may use derivative contracts to limit our short-term exposure to commodity price volatility, the commodity exposures under these contracts could still be material to our results of operations, cash flows and financial condition. In addition, in periods of declining commodity prices, these derivative contracts may have the short-term effect of increasing our expenditures for these raw materials.

We manufacture, source and sell products internationally and are exposed to risks associated with doing business globally, including risks associated with uncertain trade environments.

We manufacture, source or sell our products in a number of locations throughout the world, predominantly in the U.S., Mexico, Europe, Africa, Canada and China. Accordingly, we are subject to risks associated with potential disruption caused by changes in political, economic and social environments, including civil and political unrest, illnesses declared as a public health emergency (including viral pandemics), terrorism, possible expropriation, local labor conditions, changes in laws, regulations and policies of foreign governments and trade disputes with the U.S., and U.S. laws affecting activities of U.S. companies abroad. We could be adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. Risks inherent to international operations include: potentially adverse tax laws, unfavorable changes or uncertainty relating to trade agreements or importation duties, uncertainty regarding clearance and enforcement of intellectual property rights, risks associated with the Foreign Corrupt Practices Act, mandatory or voluntary shutdowns of our facilities or our suppliers due to changes in political, economic or health emergencies and difficulty enforcing contracts. While we hedge certain foreign currency transactions, a change in the value of the currencies will impact our financial statements when translated into U.S. dollars. In addition, fluctuations in currency can adversely impact the cost position of our products in local currency, making it more difficult for us to compete. Our success will depend, in part, on our ability to effectively manage our businesses through the impact of these potential changes. In addition, we source certain raw materials, components and finished goods from China where we have experienced higher manufacturing costs and longer lead times due to higher tariffs, currency fluctuations, higher wage rates, labor shortages and higher raw material costs.

Changes in government and industry regulatory standards could adversely affect our results of operations, cash flows and financial condition.

Government regulations and policies pertaining to trade agreements, health and safety (including protection of employees as well as consumers), taxes and environmental concerns continue to emerge domestically, as well as internationally. In particular, there may be additional tariffs or taxes related to our imported raw materials, components and finished goods. It is necessary for us to comply with current requirements (including requirements that do not become effective until a future date), and even more stringent requirements could be imposed on our products or processes in the future. Compliance with changes in taxes, tariffs and other regulations may require us to further alter our manufacturing and installation processes and our sourcing. Such actions could increase our capital expenditures and adversely impact our results of operations, cash flows and financial condition.

Risks associated with the disruption of operations could adversely affect our results of operations, cash flows and financial condition.

We manufacture a significant portion of the products we sell. Any prolonged disruption in our operations, whether due to technical or labor difficulties, COVID-19, weather, lack of raw material or component availability, startup inefficiencies for new operations, destruction of or damage to any facility (as a result of natural disasters, fires and explosions, use and storage of hazardous materials or other events) or other reasons, could negatively impact our profitability and competitive position and adversely affect our results of operations, cash flows and financial condition.

Our inability to obtain raw materials and finished goods in a timely and cost-effective manner from suppliers could adversely affect our ability to manufacture and market our products.

We purchase raw materials to be used in manufacturing our products and also rely on third-party manufacturers as a source for finished goods. We typically do not enter into long-term contracts with our suppliers or sourcing partners. Instead, most raw materials and sourced goods are obtained on a “purchase order” basis. In addition, in some instances we maintain single-source or limited-source sourcing relationships, either because multiple sources are not available or the relationship is advantageous due to performance, quality, support, delivery, capacity or price considerations. Financial, operating or other difficulties encountered by our suppliers or sourcing partners or changes in our relationships with them could result in manufacturing or sourcing interruptions, delays and inefficiencies, and prevent us from manufacturing or obtaining the finished goods necessary to meet customer demand. If we are unable to meet customer demand, there could be an adverse effect on our results of operations, cash flows and financial condition.

Impairment charges could have a material adverse effect on the Company’s financial results.

Goodwill and other acquired intangible assets expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated for impairment by management at least annually. If the carrying value exceeds the implied fair value of goodwill, the goodwill is considered impaired and is reduced to fair value via a non-cash charge to earnings. If the carrying value of an indefinite-lived intangible asset is greater than its fair value, the intangible asset is considered impaired and is reduced to fair value via a non-cash charge to earnings. During the years ended December 31, 2020, 2019 and 2018, we recorded non-cash impairment charges related to indefinite-lived intangible assets of $22.5 million, $41.5 million and $62.6 million, respectively. Future events may occur that would adversely affect the fair value of our goodwill or other acquired intangible assets and require impairment charges. Such events may include, but are not limited to, lower than forecasted revenues, actual new construction and repair and remodel growth rates that fall below our assumptions, actions of key customers, increases in discount rates, continued economic uncertainty, higher levels of unemployment, weak consumer confidence, lower levels of

discretionary consumer spending, a decrease in royalty rates and a decline in the trading price of our common stock. We continue to evaluate the impact of economic and other developments to assess whether impairment indicators are present. Accordingly, we may be required to perform impairment tests based on changes in the economic environment and other factors, and these tests could result in impairment charges in the future. Given the Company's recent impairment charges, there is minimal difference between the estimated fair values and the carrying values of some our indefinite-lived intangible assets, increasing the possibility of future impairment charges.

We may experience delays or outages in our information technology systems and computer networks. We may be subject to breaches of our information technology systems, which could damage our reputation and consumer relationships. Such breaches could subject us to significant financial, legal and operational consequences.

We, like most companies, may be subject to information technology system failures and network disruptions caused by delays or disruptions due to system updates, natural disasters, malicious attacks, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or similar events or disruptions. Our businesses may implement enterprise resource planning systems or add applications to replace outdated systems and to operate more efficiently. We may not be able to successfully implement the projects without experiencing difficulties. In addition, any expected benefits of implementing projects might not be realized or the costs of implementation might outweigh the benefits realized. In addition, information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. We believe we devote appropriate resources to network security, data encryption, and other security measures to protect our systems and data, but these security measures cannot provide absolute security. In the event of a breach, we would be exposed to a risk of loss or litigation and possible liability, which could have an adverse effect on our business, results of operations, cash flows and financial condition.

Our pension costs and funding requirements could increase as a result of volatility in the financial markets and changes in interest rates and actuarial assumptions.

Increases in the costs of pension benefits may continue and negatively affect our business as a result of: the effect of potential declines in the stock and bond markets on the performance of our pension plan assets; potential reductions in the discount rate used to determine the present value of our benefit obligations; and changes to our investment strategy that may impact our expected return on pension plan assets assumptions. U.S. generally accepted accounting principles require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial markets and interest rates, which may change based on economic conditions. Our accounting policy for defined benefit plans may subject earnings to volatility due to the recognition of actuarial gains and losses, particularly due to the change in the fair value of pension assets and interest rates. Funding requirements for our U.S. pension plans may become more significant. However, the ultimate amounts to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory changes related to pension funding obligations.

General Risk Factors

The current outbreak of COVID-19 impacted our business and may cause further disruptions to our business, financial performance and operating results.

The COVID-19 pandemic had an impact on many aspects of the Company's operations and may impact the Company in the future, including impacting our ability to efficiently operate our facilities across the globe, the ability of our suppliers to manufacture key inputs, as well as potential other impacts on customer behaviors, the Company's employees and the market generally. Our business could be negatively impacted over the longer term if the disruptions related to COVID-19 decrease consumer confidence and housing investments; or precipitate a prolonged economic downturn and/or an extended rise in unemployment or tempering of wage growth, any of which could lower demand for our products.

The inherent uncertainty surrounding COVID-19, makes it more challenging for our management to estimate the future performance of our business and the economic impact of the COVID-19 pandemic, including but not limited to, possible impairment, restructuring and other charges. Accordingly, future developments may materially impact our current estimates of such charges.

Risks associated with strategic acquisitions and joint ventures could adversely affect our results of operations, cash flows and financial condition.

We consider acquisitions and joint ventures as a means of enhancing stockholder value. Acquisitions and joint ventures involve risks and uncertainties, including difficulties integrating acquired companies and operating joint ventures; difficulties retaining the acquired businesses' customers and brands; the inability to achieve the expected financial results and benefits of transactions; the loss of key employees from acquired companies; implementing and maintaining consistent standards, controls, policies and information systems; and diversion of management's attention from other business matters. Future acquisitions could cause us to incur additional debt or issue additional shares, resulting in dilution in earnings per share and return on capital.

Future tax law changes or the interpretation of existing tax laws may materially impact our effective income tax rate, the resolution of unrecognized tax benefits and cash tax payments.

Our businesses are subject to income taxation in the U.S., as well as internationally. We are routinely audited by income tax authorities in many jurisdictions. Although we believe that the recorded tax estimates are reasonable and appropriate, there are significant uncertainties in these estimates. As a result, the ultimate outcome from any audit could be materially different from amounts reflected in our income tax provisions and accruals. Future settlements of income tax audits may have a material adverse effect on earnings between the period of initial recognition of tax estimates in our financial statements and the point of ultimate tax audit settlement. In addition, significant judgement is required in determining our provision for income taxes. Our total income tax expense could be affected by changes in tax rates in the jurisdictions in which our businesses are subject to taxation, changes in the valuation of deferred tax assets and liabilities or changes in tax laws or the interpretation of such laws by tax authorities.

Our inability to secure and protect our intellectual property rights could negatively impact revenues and brand reputation.

We have many patents, trademarks, brand names and trade names that, in the aggregate, are important to our business. Unauthorized use of these intellectual property rights may not only erode sales of our products, but may also cause significant damage to our brand name and reputation, interfere with our ability to effectively represent the Company to our customers, contractors and suppliers, and increase litigation costs. There can be no assurance that our efforts to protect our brands and trademark rights will prevent violations. In addition, existing patent, trade secret and trademark laws offer only limited protection, and the laws of some countries in which our products are or may be developed, manufactured or sold may not fully protect our intellectual property from infringement by others. There can be no assurance that our efforts to assess possible third party intellectual property rights will ensure the Company’s ability to manufacture, distribute, market or sell in any given country or territory. Furthermore, others may assert intellectual property infringement claims against us or our customers.

Our failure to attract and retain qualified personnel and other labor constraints could adversely affect our results of operations, cash flows and financial condition.

Our success depends in part on the efforts and abilities of qualified personnel at all levels, including our senior management team and other key employees. Their motivation, skills, experience, contacts and industry knowledge significantly benefit our operations and administration. Low unemployment rates in the U.S., competition for qualified talent and attracting and retaining personnel in remote locations could result in the failure to attract, motivate and retain personnel, which could have an adverse effect on our results of operations, cash flows and financial condition.

Potential liabilities and costs from claims and litigation could adversely affect our results of operations, cash flows and financial condition.

We are, from time to time, involved in various claims, litigation matters and regulatory proceedings that arise in the ordinary course of our business and that could have an adverse effect on us. These matters may include contract disputes, intellectual property disputes, product recalls, personal injury claims, construction defects and home warranty claims, warranty disputes, environmental claims or proceedings, other tort claims, employment and tax matters and other proceedings and litigation, including class actions. It is not possible to predict the outcome of pending or future litigation, and, as with any litigation, it is possible that some of the actions could be decided unfavorably and could have an adverse effect on our results of operations, cash flows and financial condition.

We are subject to product safety regulations, recalls and direct claims for product liability that can result in significant liability and, regardless of the ultimate outcome, can be costly to defend. As a result 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.

There can be no assurance that we will have access to the capital markets on terms acceptable to us.

From time to time we may need to access the long-term and short-term capital markets to obtain financing. Although we believe that the sources of capital currently in place permit us to finance our operations for the foreseeable future on acceptable terms and conditions, our access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including, but not limited to: our financial performance, our credit ratings, reference rate reform, the liquidity of the overall capital markets and the state of the economy, including the U.S. housing market. There can be no assurance that we will have access to the capital markets on terms acceptable to us. In addition, a prolonged global economic downturn may also adversely impact our access to long-term capital markets, result in increased interest rates on our corporate debt, and weaken operating cash flow and liquidity. Decreased cash flow and liquidity could potentially adversely impact our ability to pay dividends, fund acquisitions and repurchase shares in the future.

Table of Contents

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive office is located in Deerfield, Illinois. We operate 36 U.S. manufacturing facilities in 19 states and have 21 manufacturing facilities in international locations (8 in Mexico, 2 in Asia, 4 in Europe, 4 in Africa, and 3 in Canada). In addition, we have 64 distribution centers and warehouses worldwide, of which 49 are leased. The following table provides additional information with respect to these properties.

Segment	Manufacturing Facilities			Distribution Centers and Warehouses		
	Owned	*Leased*	*Total*	*Owned*	*Leased*	*Total*
Plumbing	7	5	12	7	16	23
Outdoors & Security	17	3	20	5	16	21
Cabinets	21	4	25	3	17	20
Totals	45	12	57	15	49	64

We are of the opinion that the properties are suitable to our respective businesses and have production capacities adequate to meet the current needs of our businesses.

Item 3. Legal Proceedings.

The Company is a defendant in lawsuits that are ordinary routine litigation matters incidental to its businesses. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that these actions could be decided unfavorably to the Company. The Company believes that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon the Company's results of operations, cash flows or financial condition, and, where appropriate, these actions are being vigorously contested. Accordingly, the Company believes the likelihood of material loss is remote.

Item 4. Mine Safety Disclosures.

Not applicable.

Information about our Executive Officers.

Our current executive officers are as follows:

Name	Age	Position
Nicholas I. Fink	46	Chief Executive Officer
Patrick D. Hallinan	53	Senior Vice President & Chief Financial Officer
Cheri M. Phyfer	49	President, Plumbing
Brett E. Finley	50	President, Outdoors & Security
R. David Banyard, Jr.	52	President, Cabinets
John D. Lee	48	Senior Vice President, Global Growth & Development
Robert K. Biggart	66	Senior Vice President, General Counsel & Secretary
Sheri R. Grissom	56	Senior Vice President, Chief Human Resources Officer
Brian C. Lantz	58	Senior Vice President, Communications & Corporate Administration
Marty Thomas	62	Senior Vice President, Operations & Supply Chain Strategy
Dan Luburic	49	Vice President and Corporate Controller

Nicholas I. Fink has served as Chief Executive Officer since January 2020. From March 2019 to January 2020, Mr. Fink served as President and Chief Operating Officer of Fortune Brands. From July 2016 to March 2019, Mr. Fink served as President of the Company's Plumbing business. From June 2015 to July 2016, Mr. Fink served as Senior Vice President of Global Growth and Development of Fortune Brands.

Patrick D. Hallinan has served as Senior Vice President & Chief Financial Officer of Fortune Brands since July 2017. From January 2017 to July 2017, Mr. Hallinan served as Senior Vice President of Finance of Fortune Brands. Mr. Hallinan served as Vice President, Finance and Chief Financial Officer of Moen Incorporated, a subsidiary of Fortune Brands, from November 2013 to January 2017.

Cheri M. Phyfer has served as President of the Plumbing segment since March 2019. Ms. Phyfer served as President of Moen's U.S. business from February 2018 to March 2019. Prior to that, Ms. Phyfer held various positions at the Sherwin-Williams Company, a manufacturer of paint and coatings products, including President of the Consumer Brands Group (2017) and President & General Manager – Diversified Brands from 2013 to 2017.

Brett E. Finley has served as President of the Outdoors & Security segment since July 2018. From February 2016 to July 2018, Mr. Finley served as the President of Fortune Brands Doors, Inc. Prior to that, Mr. Finley held various leadership positions at IDEX Corporation, a global manufacturer of fluidics systems and specialty engineered products, including Senior Vice President and Group Executive, Fluid & Metering Technologies Segment.

R. David Banyard, Jr. has served as President of the Cabinets segment since November 2019. Mr. Banyard served as President and Chief Executive Officer of Myer Industries, an international manufacturer of packaging, storage, and safety products and specialty molding, from December 2015 to October 2019.

John D. Lee has served as Senior Vice President, Global Growth & Development of Fortune Brands since January 2020. Mr. Lee served as Senior Vice President, Global Growth & Development of the Plumbing segment from July 2016 to January 2020. Prior to that he served as Vice President and Head of Strategy, Americas of Beam Suntory, Inc., a global spirits company, from January 2015 to July 2016.

Robert K. Biggart has served as Senior Vice President, General Counsel & Secretary of Fortune Brands since December 2013.

Sheri R. Grissom has served as Senior Vice President, Chief Human Resources Officer since January 2020 and as Senior Vice President - Human Resources of Fortune Brands since February 2015.

Brian C. Lantz has served as Senior Vice President, Communications & Corporate Administration since January 2017. Mr. Lantz served as Vice President of Investor Relations and Corporate Communications from July 2013 to December 2016.

Marty Thomas has served as Senior Vice President, Operations & Supply Chain Strategy since September 2017. Mr. Thomas served as Senior Vice President of Global Operations and Engineering Services at Rockwell Automation, Inc., a provider of industrial automation and information products, from 2006 to 2016.

Dan Luburic has served as Vice President and Corporate Controller of Fortune Brands since October 2011.

PART II

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

Market Information, Dividends and Holders of Record

Our common stock is listed on the New York Stock Exchange (the "NYSE") under the ticker symbol "FBHS".

In December 2020, our Board of Directors increased the quarterly cash dividend by 8% to $0.26 per share of our common stock. Our Board of Directors will continue to evaluate dividend payment opportunities on a quarterly basis. There can be no assurance as to when and if future dividends will be paid, or at what level, because the payment of dividends is dependent upon our financial condition, results of operations, capital requirements and other factors deemed relevant by our Board of Directors.

On February 5, 2021, there were 8,604 record holders of the Company's common stock, par value $0.01 per share. A substantially greater number of holders of the Company's common stock are "street name" or beneficial holders, whose shares of record are held by banks, brokers or other financial institutions.

Table of Contents

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

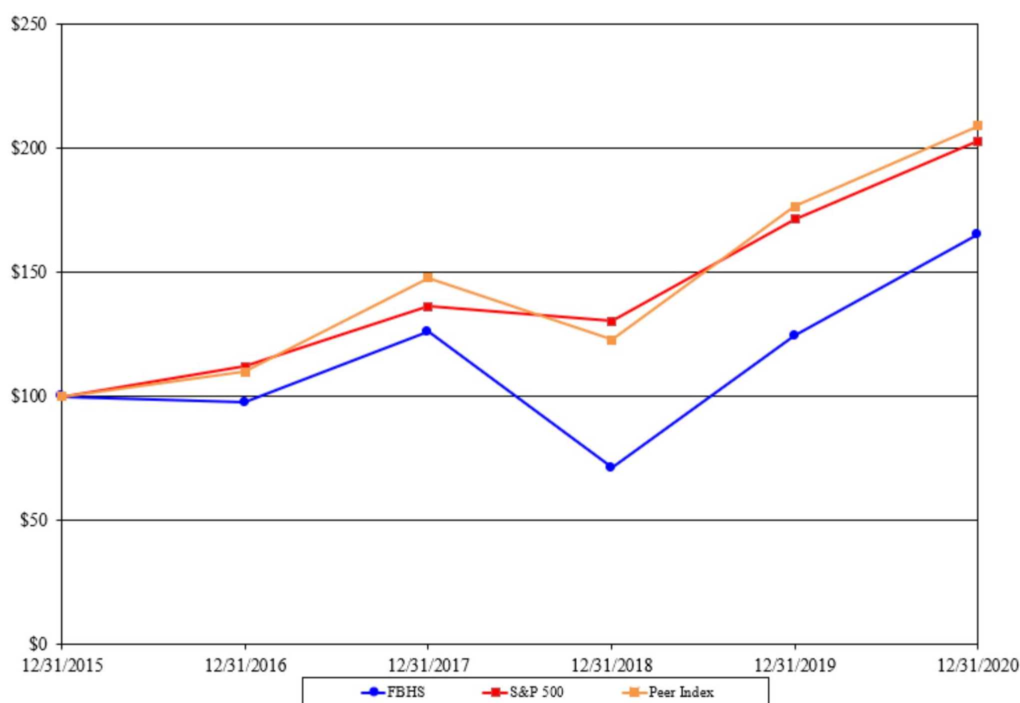
Below are the repurchases of common stock by the Company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) for the three months ended December 31, 2020:

Three Months Ended December 31, 2020	*Total number of shares purchased(a)*	*Average price paid per share*	*Total number of shares purchased as part of publicly announced plans or programs(a)*	*Approximate dollar value of shares that may yet be purchased under the plans or programs(a)*
October 1 – October 31	52,200	$ 80.11	52,200	$ 495,818,023
November 1 – November 30	40,057	83.56	40,057	492,470,912
December 1 – December 31	365,200	82.23	365,200	462,438,975
Total	457,457	$ 82.11	457,457	

(a) Information on the Company’s share repurchase program follows:

Authorization date	*Announcement date*	*Authorization amount of shares of outstanding common stock*	*Expiration date*
September 21, 2020	*September 21, 2020*	*$500 million*	*September 21, 2022*

Stock Performance



The above graph compares the relative performance of our common stock, the S&P 500 Index and a Peer Group Index. This graph covers the period from December 31, 2015 through December 31, 2020. This graph assumes $100 was invested in the stock or the index on December 31, 2015 and also assumes the reinvestment of dividends. The foregoing performance graph is being furnished as part of this Annual Report on Form 10-K solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our stockholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by the Company under the Securities Act or the Exchange Act.

Peer Group Index. The 2020 peer group is composed of the following publicly traded companies corresponding to the Company’s core businesses:

American Woodmark Corporation, Armstrong World Industries, Inc., Leggett & Platt Incorporated, Lennox International Inc., Masco Corporation, Masonite International Corporation, Mohawk Industries, Inc., Newell Brands Inc., The Sherwin-Williams Company, Stanley Black & Decker, Inc. and Fastenal Company.

Calculation of Peer Group Index

The weighted-average total return of the entire peer group, for the period of December 31, 2015 through December 31, 2020, is calculated in the following manner:

(1) the total return of each peer group member is calculated by dividing the change in market value of a share of its common stock during the period, assuming reinvestment of any dividends, by the value of a share of its common stock at the beginning of the period; and

(2) each peer group member's total return is then weighted within the index based on its market capitalization relative to the market capitalization of the entire index, and the sum of such weighted returns results in a weighted-average total return for the entire Peer Group Index.

Item 6. Selected Financial Data.

Five-year Consolidated Selected Financial Data

		Years Ended December 31,			
(In millions, except per share amounts)	2020	2019	2018	2017	2016
Income statement data[a][e][f]					
Net sales	$ 6,090.3	$ 5,764.6	$ 5,485.1	$ 5,283.3	$ 4,984.9
Cost of products sold	3,925.9	3,712.2	3,525.7	3,358.3	3,188.8
Selling, general and administrative expenses	1,282.6	1,256.3	1,241.4	1,196.9	1,135.5
Amortization of intangible assets	42.0	41.4	36.1	31.7	28.1
Loss on sale of product line	—	—	—	2.4	—
Asset impairment charges	22.5	41.5	62.6	3.2	—
Restructuring charges	15.9	14.7	24.1	8.3	13.9
Operating income	801.4	698.5	595.2	682.5	618.6
Income from continuing operations, net of tax[b][c]	562.0	431.3	390.0	475.3	412.4
Basic earnings per share – continuing operations	3.99	3.09	2.69	3.10	2.67
Diluted earnings per share – continuing operations	3.94	3.06	2.66	3.05	2.61
Other data[a][e][f]					
Depreciation and amortization	$ 163.5	$ 152.7	$ 149.6	$ 130.3	$ 122.7
Cash flow provided by operating activities	825.7	637.2	604.0	600.3	650.5
Capital expenditures	(150.5)	(131.8)	(150.1)	(165.0)	(149.3)
Proceeds from the disposition of assets	1.6	4.2	6.1	0.4	3.9
Dividends declared per common share	0.98	0.90	0.82	0.74	0.66
Balance sheet data[e][f]					
Total assets[c][d]	$ 7,358.7	$ 6,291.3	$ 5,964.6	$ 5,511.4	$ 5,128.5
Total third party debt	2,572.2	2,184.3	2,334.0	1,507.6	1,431.1
Total invested capital	5,347.7	4,612.0	4,513.9	4,108.7	3,794.1

(a) *Income statement data excludes discontinued operations. Other data is derived from the Statement of Cash Flows and therefore includes discontinued operations. For additional information, refer to Note 18, "Information on Business Segments."*

(b) The Company's defined benefit expense included recognition of pre-tax actuarial (losses) gains within other (expense) income in each of the last five years as follows:

(In millions)	2020	2019	2018	2017	2016
Pre-tax actuarial (losses) gains	*$ (3.2)*	*$ (34.1)*	*$ (3.8)*	*$ 0.5*	*$ (1.9)*
Portion in other (expense) income	*(3.2)*	*(34.1)*	*(3.8)*	*0.5*	*(1.9)*
Portion in discontinued operations	—	—	—	—	—

(c) *Includes an estimated net tax benefit of $25.7 million in 2017 resulting from the enactment of the U.S. Tax Cuts and Jobs Act of 2017 on December 22, 2017 (the "Tax Act"). During 2018, the Company completed its SAB 118 analysis with respect to income tax effects of the Tax Act. As a result, the Company recorded a tax expense in the amount of $5.5 million in 2018.*

(d) *Includes operating lease right-of-use assets of $165.6 million as of 2019 resulting from the adoption of Accounting Standards Update ("ASU") 2016-02 "Leases." Prior periods were not retrospectively adjusted to reflect the impact of this standard.*

(e) *Fiberon's results of operations are included in the income statement data and other data from September 2018 (date of acquisition) and included in the balance sheet data beginning as of 2018.*

(f) *Larson's financial results are included in the Company's consolidated balance sheet as of December 31, 2020. Larson's net sales, operating income and cash flows from the date of acquisition to December 31, 2020 were not material to the Company.*

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

Introduction

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is a supplement to the accompanying consolidated financial statements and provides additional information on our business, recent developments, financial condition, liquidity and capital resources, cash flows and results of operations. MD&A is organized as follows:

- Overview: This section provides a general description of our business and a discussion of management's general outlook regarding market demand, our competitive position and product innovation, as well as recent developments we believe are important to understanding our results of operations and financial condition or in understanding anticipated future trends.
- Basis of Presentation: This section provides a discussion of the basis on which our consolidated financial statements were prepared.
- Results of Operations: This section provides an analysis of our results of operations for the two years ended December 31, 2020 and 2019. For a discussion of our 2018 results, please refer to Item 7. "Management's Discussion and Analysis" of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 26, 2020.
- Liquidity and Capital Resources: This section provides a discussion of our financial condition and an analysis of our cash flows for each of the two years ended December 31, 2020 and 2019. This section also provides a discussion of our contractual obligations, other purchase commitments and customer credit risk that existed at December 31, 2020, as well as a discussion of our ability to fund our future commitments and ongoing operating activities through internal and external sources of capital.
- Critical Accounting Policies and Estimates: This section identifies and summarizes those accounting policies that significantly impact our reported results of operations and financial condition and require significant judgment or estimates on the part of management in their application.

Overview

The Company is a leader in home and security products focused on the design, manufacture and sale of market-leading branded products in the following categories: plumbing and accessories, entry door and storm door systems, security products, outdoor performance materials used in decking and railing products, and kitchen and bath cabinetry.

For the year ended December 31, 2020, net sales based on country of destination were:

(In millions)			
United States	$	5,094.3	84%
China		416.7	7
Canada		414.2	7
Other international		165.1	2
Total	$	6,090.3	100%

We believe the Company has certain competitive advantages including market-leading brands, a diversified mix of customer channels, lean and flexible supply chains, a decentralized business model and a strong capital structure, as well as a tradition of strong innovation and customer service. We are focused on outperforming our markets in growth, profitability and returns in order to drive increased stockholder value. We believe the Company's track record reflects the long-term attractiveness and potential of our categories and our leading brands. As consumer demand and the housing market continue to grow, we expect the benefits of operating leverage and strategic spending to support increased manufacturing capacity and long-term growth initiatives will help us to continue to achieve profitable organic growth.

We continue to believe our most attractive opportunities are to invest in profitable organic growth initiatives, pursue accretive strategic acquisitions, non-controlling equity investments, and joint ventures, and return cash to stockholders through a combination of dividends and repurchases of shares of our common stock under our share repurchase program as explained in further detail under "Liquidity and Capital Resources" below.

The U.S. market for our home products consists of spending on both new home construction and repair and remodel activities within existing homes, with the substantial majority of the markets we serve consisting of repair and remodel spending. Continued growth in the U.S. market for our home products will largely depend on consumer confidence, employment, wage growth, home prices, stable mortgage rates and credit availability.

We may be impacted by fluctuations in raw materials, tariffs, transportation costs, foreign exchange rates, inflation and promotional activity among our competitors. We strive to offset the potential unfavorable impact of these items with productivity improvements and price increases.

During the two years ended December 31, 2020, our net sales grew at a compounded annual rate of 5.4% as we benefited from a growing U.S. home products market, acquisitions, and growth in international markets. Operating income grew at a compounded annual rate of 16.0% with consolidated operating margins between 11% and 13% from 2018 to 2020. Growth in operating income was primarily due to higher sales volume, changes to our portfolio of businesses, control over our operating expenses and the benefits of productivity programs.

During the first half of 2020, in response to the COVID-19 pandemic, a number of countries and U.S. states issued orders requiring nonessential businesses to close ("closure orders") and persons who were not engaged in essential businesses to stay at home. Generally, states and jurisdictions designated our products, our retail channel partners and residential construction as essential business activities.

While our financial results were negatively impacted during the second quarter of 2020 by these closure orders, sales volumes increased as these restrictions were relaxed benefiting our third and fourth quarter results. Our first priority with regard to COVID-19 continues to be to ensure the safety, health and hygiene of our employees, customers, suppliers and others with whom we partner in our business activities. Because of our comprehensive use of appropriate risk mitigation and safety practices, we have largely been able to continue our business operations in this unprecedented business environment which could differentiate us from some of our competition. We believe that the disruption caused by the pandemic created increased consumer interest in investing in their homes and accelerated trends that we were experiencing prior to the pandemic, such as the shift towards value-priced cabinetry products and a focus on outdoor living. We expect the trend toward focusing on the home to continue. We have also taken proactive steps in our manufacturing supply chain and other areas to drive efficiencies which we expect to allow us to be more competitive both during and after the pandemic. However, due to the continued inherent uncertainty surrounding COVID-19, including governmental directives, public health challenges and market reactions, our results in future periods may be negatively impacted.

During 2020, the U.S. home products market grew due to increases in repair and remodel and new home construction activity. We believe spending for home repair and remodeling increased approximately 6% and new housing construction experienced approximately 4% growth in 2020 compared to 2019. In 2020, net sales grew 5.7% due to higher volume and price increases to help mitigate the cumulative impact from tariff related costs. These factors were partially offset by unfavorable mix, higher rebate costs and unfavorable foreign exchange of $4 million. In 2020, operating income increased 14.7% over 2019 primarily due to price increases to help mitigate the impact of higher tariffs, higher sales volume, the benefits from productivity improvements and restructuring actions and lower asset impairment charges. These factors were partially offset by the impact of unfavorable mix, higher employee related costs, higher tariffs, higher transportation costs, higher advertising and marketing costs and higher restructuring and other charges.

In December 2020, we acquired 100% of the outstanding equity of Larson, a leading brand of storm, screen and security doors, for a total purchase price of approximately $715.2 million, net of cash acquired and closing date working capital adjustments. The acquisition cost is further subject to the final post-closing working capital adjustment. We financed the transaction with borrowings under our existing credit facilities. This acquisition is expected to strengthen our overall product offering.

Following the acquisition of Larson, our Doors & Security segment was renamed "Outdoors & Security" to better align with the segment's strategic focus on the fast-growing outdoor living space and to better represent the brands within the segment, including the newly acquired Larson. The Outdoors & Security segment name change is to the name only and had no impact on the Company's historical financial position, results of operations, cash flow or segment level results previously reported.

During June 2020, we repaid all amounts outstanding on the 3.000% Senior Notes issued in June 2015 at their maturity date using borrowings under our 2019 Revolving Credit Agreement (as defined below). In September 2019, the Company issued $700 million of 3.25% Senior Notes due 2029 ("2019 Notes") in a registered public offering. The Company used the proceeds from the 2019 Notes offering to repay in full a $350 million term loan and to pay down outstanding balances under our 2019 Revolving Credit Agreement.

In April 2020, the Company entered into a 364-day supplemental, $400 million revolving credit facility (the "2020 Revolving Credit Agreement"), and borrowings thereunder will be used for general corporate purposes.

In 2018 our Plumbing segment entered into a strategic partnership with, and acquired non-controlling equity interests in, Flo Technologies, Inc. ("Flo"), a U.S. manufacturer of comprehensive water monitoring and shut-off systems with leak detection technologies. In January 2020, we entered into an agreement to acquire 100% of the outstanding shares of Flo in a multi-phase transaction, which will be completed in 2022.

Basis of Presentation

The consolidated financial statements in this Annual Report on Form 10-K have been derived from the accounts of the Company and its wholly-owned subsidiaries. The Company's consolidated financial statements are based on a fiscal year

ending December 31. Certain of the Company's subsidiaries operate on a 52 or 53 week fiscal year ending during the month of December.

In December 2020, the Company acquired 100% of the outstanding equity of Larson for a total purchase price of approximately $715.2 million, net of cash acquired and closing date working capital adjustments. The acquisition cost is further subject to the final post-closing working capital adjustment. We financed the transaction with borrowings under our existing credit facilities. The financial results of Larson were included in the Company's consolidated balance sheet as of December 31, 2020. Larson's net sales, operating income and cash flows from the date of acquisition to December 31, 2020 were not material to the Company. The results of operations are included in the Outdoors & Security segment.

Results of Operations

The following discussion of both consolidated results of operations and segment results of operations refers to the year ended December 31, 2020 compared to the year ended December 31, 2019. The discussion of consolidated results of operations should be read in conjunction with the discussion of segment results of operations and our financial statements and notes thereto included in this Annual Report on Form 10-K. Unless otherwise noted, all discussion of results of operations are for continuing operations.

Years Ended December 31, 2020 and 2019

(In millions)		2020	% change		2019
Net Sales:					
Plumbing	$	2,202.1	8.6%	$	2,027.2
Outdoors & Security		1,419.2	5.2		1,348.9
Cabinets		2,469.0	3.4		2,388.5
Total Fortune Brands	$	6,090.3	5.7%	$	5,764.6
Operating Income:					
Plumbing	$	467.9	9.4%	$	427.6
Outdoors & Security		201.3	16.8		172.3
Cabinets		235.7	32.2		178.3
Corporate		(103.5)	(29.9)		(79.7)
Total Fortune Brands	$	801.4	14.7%	$	698.5

Certain items had a significant impact on our results in 2020 and 2019. These included restructuring and other charges, asset impairment charges and the impact of changes in foreign currency exchange rates.

In 2020, financial results included:

- restructuring and other charges of $25.1 million before tax ($17.5 million after tax), largely related to headcount actions associated with COVID-19 across all segments and costs associated with changes in our manufacturing processes within our Plumbing segment,
- asset impairment charges of $22.5 related to the impairment of indefinite-lived tradenames within our Plumbing and Cabinets segments, which were primarily the result of forecasted sales declines resulting from the COVID-19 pandemic,
- actuarial losses within our defined benefit plans of $3.4 million primarily related to decreases in discount rates and differences between expected and actual returns on plan assets and
- the impact of foreign exchange primarily due to movement in the Canadian dollar, British pound, Mexican peso and Chinese yuan, which had an unfavorable impact compared to 2019, of approximately $4 million on net sales and a favorable impact compared to 2019, of approximately $1 million both on operating income and net income.

In 2019, financial results included:

- asset impairment charges of $41.5 related to impairment of two indefinite-lived tradenames within our Cabinets segment, which were primarily the result of a continuing shift in consumer demand from custom and semi-custom cabinetry products to value-priced cabinetry products, which led to reductions in future growth rates related to these tradenames,
- actuarial losses within our defined benefit plans of $34.7 million primarily related to decreases in discount rates and differences between expected and actual returns on plan assets,
- restructuring and other charges of $22.2 million before tax ($16.8 million after tax), primarily related to severance costs within all of our segments and costs associated with closing facilities within our Plumbing and Outdoors & Security segments and
- the impact of foreign exchange primarily due to movement in the Canadian dollar, British pound, Mexican peso and Chinese yuan, which had an unfavorable impact compared to 2018, of approximately $29 million on net sales, approximately $10 million on operating income and approximately $8 million on net income.

Total Fortune Brands

Net sales

Net sales increased by $325.7 million, or 5.7%, on higher volume and price increases to help mitigate the cumulative impact from tariff related costs. These factors were partially offset by unfavorable mix, higher rebate costs and unfavorable foreign exchange of $4 million.

Cost of products sold

Cost of products sold increased by $213.7 million, or 5.8%, due to higher net sales, unfavorable mix and the impact of higher tariffs, partially offset by the benefit from productivity improvements.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by $26.3 million, or 2.1%, due to higher employee related costs, higher advertising and marketing cost and higher transportation costs. These increases were partially offset by the benefits from organizational restructuring initiatives.

Amortization of intangible assets

Amortization of intangible assets are consistent with the prior year.

Asset impairment charges

Asset impairment charges of $22.5 million in 2020 related to indefinite-lived tradenames within our Plumbing and Cabinets segments. Asset impairment charges of $41.5 million in 2019 related to two indefinite-lived tradenames within our Cabinets segment.

Restructuring charges

Restructuring charges of $15.9 million in 2020 largely related to headcount actions associated with COVID-19 across all segments and costs associated with changes in our manufacturing processes within our Plumbing segment. Restructuring charges of $14.7 million in 2019 primarily related to severance costs within our Plumbing and Cabinets segments and costs associated with closing facilities within our Plumbing and Outdoors & Security segments.

Operating income

Operating income increased by $102.9 million, or 14.7%, primarily due to price increases to help mitigate the impact of higher tariffs, higher sales volume, the benefits from productivity improvements and restructuring actions and lower asset impairment charges. These factors were partially offset by unfavorable mix, higher employee related costs, higher tariffs, higher transportation costs, higher advertising and marketing costs and higher restructuring and other charges.

Interest expense

Interest expense decreased $10.3 million to $83.9 million, due to lower average borrowings and lower average interest rates.

Other (income) expense, net

Other (income) expense, net, was income of $13.3 million in 2020, compared to expense of $29.0 million in 2019. The increase of $42.3 million of income is primarily due to higher defined benefit income in 2020 ($33.2 million increase) and gains of $11.0 million related to our investment in Flo, partially offset by unfavorable foreign currency losses.

Income taxes

The effective income tax rates for 2020 and 2019 were 23.1% and 25.0%, respectively. The 2020 effective income tax rate was unfavorably impacted by state and local taxes ($22.3 million) and foreign taxes ($6.2 million), and was favorably impacted by a benefit related to share-based compensation ($11.5 million).

The 2019 effective income tax rate was unfavorably impacted by state and local taxes ($18.0 million), foreign taxes ($1.8 million), a valuation allowance increase ($3.4 million), and increases in uncertain tax positions (7.5 million). The 2019 effective income tax rate was favorably impacted by a tax benefit related to share-based compensation ($3.7 million).

Net income from continuing operations

Net income from continuing operations was $554.4 million in 2020 compared to $431.3 million in 2019. The increase of $123.1 million was due to higher operating income, higher other (income) expense, net and lower interest expense, partly offset by higher income taxes and equity in losses of affiliate.

Results By Segment

Plumbing

Net sales increased by $174.9 million, or 8.6%, due to higher sales volume from retail and e-commerce customers in the U.S. who benefited from strong consumer demand from higher home investments, higher sales volume in China despite temporary closures for COVID-19 and price increases to help mitigate the cumulative impact of tariffs. These factors were partly offset by higher rebate costs and lower sales from showroom customers whose locations closed or operated at limited capacity as a result of the COVID-19 pandemic as well as unfavorable foreign exchange of approximately $1 million.

Operating income increased by $40.3 million, or 9.4%, due to higher sales volume and the benefit from productivity improvements. These benefits were partly offset by unfavorable channel mix, higher advertising and marketing costs, asset impairment charges ($13.0 million in 2020), higher employee related costs and the impact of higher tariffs as well as unfavorable foreign exchange of approximately $2 million.

Outdoors & Security

Net sales increased by $70.3 million, or 5.2%, due to higher volume for decking and doors products due to strong consumer demand benefiting from higher home investments, price increases to help mitigate tariffs and the benefit from new customers in decking products. These factors were partially offset by lower volume primarily due to COVID-19 related weakness in the commercial and international security markets, the discontinuance of a doors product line, higher rebate costs and unfavorable mix. Foreign exchange was unfavorable by approximately $2 million.

Operating income increased by $29.0 million, or 16.8%, due to higher sales volume, the benefit from productivity improvements, the absence in 2020 of expenses related to Fiberon’s inventory fair value adjustment ($1.8 million in 2019) and a fair value adjustment associated with an idle manufacturing facility ($1.7 million in 2019). Foreign exchange was favorable by approximately $3 million. These factors were partially offset by unfavorable mix, higher employee related costs, the impact of higher tariffs and higher restructuring costs.

Cabinets

Net sales increased by $80.5 million, or 3.4%, due to higher volume and price increases to help mitigate the cumulative impact of tariffs. These factors were partly offset by a continued shift to value-priced products from make-to-order products and higher transportation costs, as well as unfavorable foreign exchange of approximately $1 million.

Operating income increased by $57.4 million, or 32.2%, due to higher net sales, lower asset impairment charges ($32.0 million decrease) and the benefit from productivity improvements. These factors were partly offset by a continued shift to value-priced products from make-to-order products and higher transportation costs.

Corporate

Corporate expenses increased by $23.8 million, or 29.9%, due to higher employee related costs, $4.5 million of transaction costs associated with the Larson acquisition and the impairment of a long-lived asset ($3.6 million).

Liquidity and Capital Resources

Our principal sources of liquidity are cash on hand, cash flows from operating activities, cash borrowed under our credit facility and cash from debt issuances in the capital markets. Our operating income is generated by our subsidiaries. We believe our operating cash flows, including funds available under the credit facility and access to capital markets, provide sufficient liquidity to support the Company’s working capital requirements, capital expenditures and service of indebtedness, as well as to finance acquisitions, repurchase shares of our common stock and pay dividends to stockholders, as the Board of Directors deems appropriate.

Our cash flows from operations, borrowing availability and overall liquidity are subject to certain risks and uncertainties, including those described in the section entitled “Item 1A. Risk Factors.” In addition, we cannot predict whether or when we may enter into acquisitions, joint ventures or dispositions, make any purchases of shares of our common stock under our share repurchase programs, or pay dividends, or what impact any such transactions could have on our results of operations, cash flows or financial condition, whether as a result of the issuance of debt or equity securities, or otherwise.

Unsecured Senior Notes

At December 31, 2020, the Company had aggregate outstanding notes in the principal amount of $1.8 billion, with varying maturities (the "Notes"). The Notes are unsecured senior obligations of the Company. The following table provides a summary of the Company's outstanding Notes, including the carrying value of the Notes, net of underwriting commissions, price discounts and debt issuance costs as of December 31, 2020 and December 31, 2019:

(in millions)				Net Carrying Value	
Coupon Rate	Principal Amount	Issuance Date	Maturity Date	December 31, 2020	December 31, 2019
3.000% Senior Notes	$ 400.0	June 2015	June 2020	$ -	$ 399.7
4.000% Senior Notes	500.0	June 2015	June 2025	496.6	495.8
4.000% Senior Notes (the "2018 Notes")	600.0	September 2018	September 2023	597.1	596.1
3.250% Senior Notes (the "2019 Notes")	700.0	September 2019	September 2029	693.5	692.7
Total Senior Notes				$ 1,787.2	$ 2,184.3

During June 2020, we repaid all outstanding 3.000% Senior Notes issued in June 2015 at their maturity date using borrowings under our 2019 Revolving Credit Agreement (as defined below). In September 2019, we issued $700 million of the 3.25% Senior Notes due 2029 in a registered public offering. The Company used the proceeds from the 2019 Notes offering to repay in full the Company's $350 million term loan and to pay down outstanding balances under our revolving credit facility.

Notes payments due during the next five years as of December 31, 2020 are zero in 2021 through 2022, $600 million in 2023, zero in 2024 and $500 million in 2025.

Credit Facilities

In April 2020, the Company entered into a supplemental 364-day, $400 million revolving credit facility (the "2020 Revolving Credit Agreement"), and borrowings thereunder will be used for general corporate purposes.

In September 2019, the Company entered into a second amended and restated $1.25 billion revolving credit facility (the "2019 Revolving Credit Agreement"), and borrowings thereunder will be used for general corporate purposes. The terms and conditions of the 2019 Revolving Credit Agreement, including the total commitment amount, essentially remained the same as the previous revolving credit facility, except that the maturity date was extended to September 2024. Interest rates under the 2019 Revolving Credit Agreement are variable based on LIBOR at the time of the borrowing and the Company's long-term credit rating and can range from LIBOR + 0.91% to LIBOR + 1.4%. Borrowings amounting to $165.0 million were rolled over from the prior revolving credit facility into the 2019 Revolving Credit Agreement. The amendment also includes a covenant under which the Company is required to maintain a minimum ratio of consolidated EBITDA to consolidated interest expense of 3.0 to 1.0. Adjusted EBITDA is defined as consolidated net income before interest expense, income taxes, depreciation, amortization of intangible assets, losses from asset impairments, and certain other one-time adjustments. In addition, the amendment includes a covenant under which the Company's ratio of consolidated debt minus certain cash and cash equivalents to consolidated EBITDA generally may not exceed 3.5 to 1.0. This amendment and restatement of the credit agreement was a non-cash transaction for the Company. On December 31, 2020 and December 31, 2019, our outstanding borrowings under this credit facility were $785.0 million and zero, respectively. As of December 31, 2020, we were in compliance with all covenants under this credit facility.

We currently have uncommitted bank lines of credit in China, which provide for unsecured borrowings for working capital of up to $17.5 million in aggregate as of December 31, 2020 and December 31, 2019, of which there were no outstanding balances as of December 31, 2020 and 2019. The weighted-average interest rates on these borrowings were zero in 2020 and 2019.

The components of external long-term debt were as follows:

(In millions)	*2020*	*2019*
Notes	$ 1,787.2	$ 2,184.3
$1,250 million revolving credit agreement due September 2024	785.0	—
Total debt	2,572.2	2,184.3
Less: current portion	—	399.7
Total long-term debt	$ 2,572.2	$ 1,784.6

In our debt agreements, there are normal and customary events of default which would permit the lenders to accelerate the debt if not cured within applicable grace periods, such as failure to pay principal or interest when due or a change in control of the Company. There were no events of default as of December 31, 2020.

Cash and Seasonality

In 2020, we invested approximately $97.8 million in incremental capacity to support long-term growth potential and new products inclusive of cost reduction and productivity initiatives. We expect capital spending in 2021 to be in the range of $210 to $250 million. On December 31, 2020, we had cash and cash equivalents of $419.1 million, of which $342.9 million was held at non-U.S. subsidiaries. We manage our global cash requirements considering (i) available funds among the subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The repatriation of non-U.S. cash balances from certain subsidiaries could have adverse tax consequences as we may be required to pay and record tax expense on those funds that are repatriated.

Our operating cash flows are significantly impacted by the seasonality of our business. We typically generate most of our operating cash flow in the third and fourth quarters of each year. We use operating cash in the first quarter of the year.

Share Repurchases

In 2020, we repurchased 2.9 million shares of our outstanding common stock under the Company's share repurchase program for $187.6 million. As of December 31, 2020, the Company's total remaining share repurchase authorization under the remaining program was approximately $462.4 million. The share repurchase program does not obligate the Company to repurchase any specific dollar amount or number of shares and may be suspended or discontinued at any time.

Dividends

In 2020, we paid dividends in the amount of $133.3 million to the Company's stockholders. Our Board of Directors will continue to evaluate dividend payment opportunities on a quarterly basis. There can be no assurance as to when and if future dividends will be paid, and at what level, because the payment of dividends is dependent on our financial condition, results of operations, cash flows, capital requirements and other factors deemed relevant by our Board of Directors. There are no restrictions on the ability of our subsidiaries to pay dividends or make other distributions to Fortune Brands.

Acquisitions

We periodically review our portfolio of brands and evaluate potential strategic transactions and other capital initiatives to increase stockholder value. In December 2020, we acquired 100% of the outstanding equity of Larson, the North American market leading brand of storm, screen and security doors, for a total purchase price of approximately $715.2 million, net of cash acquired and closing date working capital adjustments. The acquisition cost is further subject to the final post-closing working capital adjustment. Larson also sells related outdoor living products including retractable screens and porch windows. In September 2018, we acquired 100% of the membership interests of Fiberon, a leading U.S. manufacturer of outdoor performance materials used in decking and railing products, for a total purchase price of approximately $470 million, subject to certain post-closing adjustments. The acquisition of Fiberon provided category expansion and product extension opportunities into the outdoor living space for our Outdoors & Security segment. We financed the transactions using cash on hand and borrowings under our revolving credit and term loan facilities. The results of both acquisitions are included in the Outdoors & Security segment from the date of acquisition.

Cash Flows

Below is a summary of cash flows for the years ended December 31, 2020 and 2019.

(In millions)		*2020*		2019
Net cash provided by operating activities	$	825.7	$	637.2
Net cash used in investing activities		(923.5)		(127.6)
Net cash provided by (used in) financing activities		111.6		(389.7)
Effect of foreign exchange rate changes on cash		16.3		4.3
Net increase in cash, cash equivalents and restricted cash	$	30.1	$	124.2

Net cash provided by operating activities was $825.7 million in 2020 compared to $637.2 million in 2019. The $188.5 million increase in cash provided from 2019 to 2020 was primarily due to higher net income, lower increases in working capital and increases in accrued taxes.

Net cash used in investing activities was $923.5 million in 2020 compared to $127.6 million in 2019. The increase in cash used of $795.9 million from 2019 to 2020 was primarily due to the acquisition of Larson and additional shares of Flo Technologies during 2020 and increased capital expenditures.

Net cash provided by financing activities was $111.6 million in 2020 compared to cash used in financing activities of $389.7 million in 2019. The increase in net cash provided of $501.3 million from 2019 to 2020 was primarily due to lower net borrowings in 2020 compared to 2019 ($535.7 million), higher proceeds from the exercise of stock options and the absence of deferred

acquisition payments made during 2019 ($19.0 million), partly offset by higher share repurchases in 2020 compared to 2019 and higher dividends to stockholders.

Pension Plans

Subsidiaries of Fortune Brands sponsor their respective defined benefit pension plans that are funded by a portfolio of investments maintained within our benefit plan trust. In 2020 and 2019, we contributed $47.7 million and $10.0 million, respectively, to our qualified pension plans. In 2021, we expect to make pension contributions of approximately $10.0 million. As of December 31, 2020, the fair value of our total pension plan assets was $784.9 million, representing funding of 84% of the accumulated benefit obligation liability. For the foreseeable future, we believe that we have sufficient liquidity to meet the minimum funding that may be required by the Pension Protection Act of 2006.

Foreign Exchange

We have operations in various foreign countries, principally Canada, China, Mexico, the United Kingdom, France, Australia and Japan. Therefore, changes in the value of the related currencies affect our financial statements when translated into U.S. dollars.

Contractual Obligations and Other Commercial Commitments

The following table describes other obligations and commitments to make future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees, as of December 31, 2020.

(In millions)	Payments Due by Period as of December 31, 2020				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 2,585.0	$ —	$ 600.0	$ 1,285.0	$ 700.0
Interest payments on long-term debt(a)	408.0	77.8	163.7	75.5	91.0
Operating leases	203.5	42.8	67.5	40.5	52.7
Purchase obligations(b)	731.7	689.0	32.6	10.1	—
Defined benefit plan contributions(c)	10.0	10.0	—	—	—
Total	$ 3,938.2	$ 819.6	$ 863.8	$ 1,411.1	$ 843.7

(a) Interest payments on long-term debt were calculated using the borrowing rate in effect on December 31, 2020.
(b) Purchase obligations include contracts for raw material and finished goods purchases; selling and administrative services; and capital expenditures.
(c) Pension and postretirement contributions cannot be determined beyond 2021.

Due to the uncertainty of the timing of settlement with taxing authorities, we are unable to make reasonably reliable estimates of the period of cash settlement of unrecognized tax benefits. Therefore, $96.1 million of unrecognized tax benefits as of December 31, 2020 have been excluded from the Contractual Obligations table above.

In addition to the contractual obligations and commitments listed and described above, we also had other commercial commitments for which we are contingently liable as of December 31, 2020. Other corporate commercial commitments include standby letters of credit of $34.6 million, in the aggregate, all of which expire in less than one year, and surety bonds of $15.1 million, of which $15.0 million matures in less than one year and $0.1 million matures in 1-3 years. These contingent commitments are not expected to have a significant impact on our liquidity.

Off-Balance Sheet Arrangements

As of December 31, 2020, we did not have any off-balance sheet arrangements that are material or reasonably likely to be material to our financial condition or results of operations.

Foreign Currency Risk

Certain anticipated transactions, assets and liabilities are exposed to foreign currency risk. Principal currencies hedged include the Canadian dollar, the British pound, the Mexican peso and the Chinese yuan. We regularly monitor our foreign currency exposures in order to maximize the overall effectiveness of our foreign currency hedge positions. For additional information on this risk, see Item 7A. “Quantitative and Qualitative Disclosures about Market Risk” in this Annual Report on Form 10-K.

Derivative Financial Instruments

In accordance with Accounting Standards Codification ("ASC") requirements for Derivatives and Hedging, we recognize all derivative contracts as either assets or liabilities on the balance sheet, and the measurement of those instruments is at fair value. If the derivative is designated as a fair value hedge and is effective, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the same period. If the derivative is designated as a cash flow hedge, the changes in the fair value of the derivative are recorded in other comprehensive income (“OCI”) and are

recognized in the consolidated statement of income when the hedged item affects earnings. If the derivative is designated as an effective economic hedge of the net investment in a foreign operation, the changes in the fair value of the derivative is reported in the cumulative translation adjustment section of OCI. Similar to foreign currency translation adjustments, these changes in fair value are recognized in earnings only when realized upon sale or upon complete or substantially complete liquidation of the investment in the foreign entity.

Deferred currency (loss) gains of $(3.0) million and $4.1 million (before tax impact) were reclassified into earnings for the years ended December 31, 2020 and 2019, respectively. Based on foreign exchange rates as of December 31, 2020, we estimate that $2.0 million of net derivative gain included in accumulated other comprehensive income ("AOCI") as of December 31, 2020 will be reclassified to earnings within the next twelve months.

Recently Issued Accounting Standards

The adoption of recent accounting standards, as discussed in Note 2, “Significant Accounting Policies,” to our Consolidated Financial Statements, has not had and is not expected to have a significant impact on our revenue, earnings or liquidity.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 2, “Significant Accounting Policies,” of the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K. The Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles (“GAAP”). Preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the amounts of assets and liabilities reflected in the financial statements and revenues and expenses reported for the relevant reporting periods. We believe the policies discussed below are the Company’s critical accounting policies as they include the more significant, subjective and complex judgments and estimates made when preparing our consolidated financial statements.

Allowances for Credit Losses
Trade receivables are recorded at the stated amount, less allowances for discounts and credit losses. The allowances represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations (usually due to customers’ potential insolvency) or discounts related to early payment of accounts receivables by our customers. The allowances for credit losses include provisions for certain customers where a risk of default has been specifically identified. In addition, the allowances include a provision for expected customer defaults on a general formula basis when it cannot yet be associated with specific customers. Expected credit losses are estimated using various factors, including the length of time the receivables are past due, historical collection experience and existing economic conditions. In accordance with this policy, our allowance for credit losses was $6.7 million and $3.0 million as of December 31, 2020 and 2019, respectively.

Inventories

Inventory provisions are recorded to reduce inventory to the net realizable dollar value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage and specific identification of items, such as product discontinuance, engineering/material changes, or regulatory-related changes. In accordance with this policy, our inventory provision was $51.2 million and $46.1 million as of December 31, 2020 and 2019, respectively.

Long-lived Assets
In accordance with ASC requirements for Property, Plant and Equipment, a long-lived asset (including amortizable identifiable intangible assets) or asset group held for use is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, we compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of a long-lived asset or asset group. The cash flows are based on our best estimate of future cash flows derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value. Fair value is estimated primarily using discounted expected future cash flows on a market-participant basis.

During 2020, we recorded an impairment of $3.6 million related to a long-lived asset to be disposed of in selling, general and administrative expenses. During 2019, we recorded an impairment of $1.7 million related to a long-lived asset to be disposed of in cost of products sold. No impairments of long-lived assets were recorded during 2018.

Business Combinations

We account for business combinations under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations,* which requires an allocation of the consideration we paid to the identifiable assets, intangible assets and liabilities based on the estimated fair values as of the closing date of the acquisition. The excess of the fair value of the purchase price over the fair values of these identifiable assets, intangible assets and liabilities is recorded as goodwill.

Purchased intangibles other than goodwill are initially recognized at fair value and amortized over their useful lives unless those lives are determined to be indefinite. The valuation of acquired assets will impact future operating results. The fair value of identifiable intangible assets is determined using an income approach on an individual asset basis. Specifically, we use the multi-period excess earnings method to determine the fair value of customer relationships and the relief-from-royalty approach to determine the fair value of the tradename and proprietary technology. Determining the fair value of acquired intangibles involves significant estimates and assumptions, including forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rates.

The determination of the useful life of an intangible asset other than goodwill is based on factors including historical tradename performance with respect to consumer name recognition, geographic market presence, market share, plans for ongoing tradename support and promotion, customer attrition rate, and other relevant factors.

Goodwill and Indefinite-lived Intangible Assets

In accordance with ASC requirements for Intangibles - Goodwill and Other, goodwill is tested for impairment at least annually in the fourth quarter and written down when impaired. An interim impairment test is performed if an event occurs or conditions change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

To evaluate the recoverability of goodwill, we first assess qualitative factors to determine whether it is more likely than not that goodwill is impaired. Qualitative factors include changes in volume, margin, customers and the industry. If it is deemed more likely than not that goodwill for a reporting unit is impaired, we will perform a quantitative impairment test using a weighting of the income and market approaches. For the income approach, we use a discounted cash flow model, estimating the future cash flows of the reporting units to which the goodwill relates and then discounting the future cash flows at a market-participant-derived discount rate. In determining the estimated future cash flows, we consider current and projected future levels of income based on management's plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. Furthermore, our cash flow projections used to assess impairment of our goodwill and other intangible assets are significantly influenced by our projection for the U.S. home products market, our annual operating plans finalized in the fourth quarter of each year, and our ability to execute on various planned cost reduction initiatives supporting operating income improvements. Our projection for the U.S. home products market is inherently uncertain and is subject to a number of factors, such as employment, home prices, credit availability, new home starts and the rate of home foreclosures. For the market approach, we apply market multiples for peer groups to the current operating results of the reporting units to determine each reporting unit's fair value. The Company's reporting units are operating segments, or one level below operating segments when appropriate. When the estimated fair value of a reporting unit is less than its carrying value, we measure and recognize the amount of the goodwill impairment loss based on that difference.

The significant assumptions that are used to determine the estimated fair value for goodwill impairment testing include the following: third-party market forecasts of U.S. new home starts and home repair and remodel spending; management's sales, operating income and cash flow forecasts; peer company EBITDA earnings multiples; the market-participant-based discount rate; and the perpetuity growth rate. Our estimates of reporting unit fair values are based on certain assumptions that may differ from our historical and future actual operating performance. Specifically, assumptions related to growth in the new construction and repair and remodel segments of the U.S. home products markets drive our forecasted sales growth. The market forecasts are developed using independent third-party forecasts from multiple sources. In addition, estimated future operating income and cash flow consider our historical performance at similar levels of sales volume and management's future operating plans as reflected in annual and long-term plans that are reviewed and approved by management.

Certain of our tradenames have been assigned an indefinite life as we currently anticipate that these tradenames will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at least annually to determine whether the indefinite useful life is appropriate. We measure the fair value of identifiable intangible assets upon acquisition and we review for impairment annually in the fourth quarter and whenever market or business events indicate there may be a potential impairment of that intangible. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. The significant assumptions that are used to determine the estimated fair value for indefinite-lived intangible assets upon acquisition and subsequent impairment testing are forecasted revenue growth

rates; the assumed royalty rates; and the market-participant discount rates. We measure fair value of our indefinite-lived tradenames using the relief-from-royalty approach which estimates the present value of royalty income that could be hypothetically earned by licensing the brand name to a third party over the remaining useful life. The determination of fair value using this technique requires the use of estimates and assumptions related to forecasted revenue growth rates, the assumed royalty rates and the market-participant discount rates. We first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. Qualitative factors include changes in volume, customers and the industry. If it is deemed more likely than not that an intangible asset is impaired, we will perform a quantitative impairment test. See Note 5, “Goodwill and Identifiable Intangible Assets,” for additional information.

During the second quarter of 2020, extended closures of luxury plumbing showrooms associated with COVID-19 led to lower than expected sales related to an indefinite-lived tradename within the Plumbing segment, which combined with the updated financial outlook compared to previous forecasts and the continued uncertainty of the pandemic on the sales and profitability related to the tradename led us to conclude that it was more likely than not that the indefinite-lived tradename was impaired. Therefore, we performed an interim impairment test as of June 30, 2020, and as a result we recognized a pre-tax impairment charge of $13.0 million related to this tradename. We also performed an evaluation of the useful life of this tradename and determined it was no longer indefinite-lived due to changes in long-term management expectations and future operating plans. As a result, the remaining carrying value of this tradename is being amortized over its estimated useful life of 30 years.

In the first quarter of 2020, we recognized an impairment charge of $9.5 million related to an indefinite-lived tradename in our Cabinets segment. This charge was primarily the result of lower expected sales of custom cabinetry products related to the impact of COVID-19. In the fourth quarter of 2019, we recognized an impairment charge of $12.0 million related to the same indefinite-lived tradename, which was the result of a strategic shift associated with new segment leadership and acceleration of our capacity rebalancing initiatives from custom cabinetry products to value-based cabinetry products as a result of lower than expected sales of custom cabinetry products compared to prior forecasts. As of December 31, 2020, the carrying value of this tradename was $29.1 million.

In the third quarter of 2019, we recognized an impairment charge of $29.5 million related to a second indefinite-lived tradename in our Cabinets segment, which was primarily the result of a continuing shift in consumer demand from semi-custom cabinetry products to value-priced cabinetry products, which led to consecutive downward adjustments of internal sales forecasts and future growth rates associated with the tradename. In the fourth quarter of 2018, we recorded an impairment charge of $35.5 million related to the same indefinite-lived tradename, which was primarily the result of lower than forecasted sales during the fourth quarter of 2018 as well as projected changes in the mix of revenue across our tradenames in future periods, including the impact of more moderate industry growth expectations, which were finalized during our annual planning process conducted during the fourth quarter of 2018. As of December 31, 2020, the carrying value of this tradename was $85.0 million.

During the third quarter of 2018, we recorded a pre-tax impairment charge of $27.1 million related to a third indefinite-lived tradename within the Cabinets segment. This charge was primarily the result of reduced revenue growth expectations associated with Cabinets operations in Canada, including the announced closure of Company-owned retail locations. As of December 31, 2020, the carrying value of this tradename was $39.8 million.

The fair values of the impaired tradenames were measured using the relief-from-royalty approach, which estimates the present value of royalty income that could be hypothetically earned by licensing the tradename to a third party over its remaining useful life. Some of the more significant assumptions inherent in estimating the fair values include forecasted revenue growth rates, assumed royalty rates, and market-participant discount rates that reflect the level of risk associated with the tradenames’ future revenues and profitability. We selected the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated growth rates, and management plans. These assumptions represent level 3 inputs of the fair value hierarchy (refer to Note 9).

As of December 31, 2020, the fair value of four Cabinets' tradenames exceeded their carrying values of $180.6 million by less than 30%. A reduction in the estimated fair value of the tradenames in our Cabinets segment could trigger additional impairment charges in future periods. Events or circumstances that could have a potential negative effect on the estimated fair value of our reporting units and indefinite-lived tradenames include: lower than forecasted revenues, more severe impacts of the COVID-19 pandemic than currently expected, actual new construction and repair and remodel growth rates that fall below our assumptions, actions of key customers, increases in discount rates, continued economic uncertainty, higher levels of unemployment, weak consumer confidence, lower levels of discretionary consumer spending, a decrease in royalty rates and a decline in the trading price of our common stock. We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill and indefinite-lived assets.

Defined Benefit Plans

We have a number of pension plans in the United States, covering many of the Company's employees. In addition, the Company provides postretirement health care and life insurance benefits to certain retirees. Service cost for 2020 relates to benefit accruals for an hourly Union group within the defined benefit plan for our Outdoors & Security segment. All other benefit accruals under our defined benefit pension plans were frozen as of, or prior to, December 31, 2016.

We recognize changes in the fair value of pension plan assets and net actuarial gains or losses in excess of 10 percent of the greater of the fair value of pension plan assets or each plan's projected benefit obligation (the "corridor") in earnings immediately upon remeasurement, which is at least annually in the fourth quarter of each year. Net actuarial gains and losses occur when actual experience differs from any of the assumptions used to value defined benefit plans or when assumptions change as they may each year. The primary factors contributing to actuarial gains and losses are changes in the discount rate used to value obligations as of the measurement date and the differences between expected and actual returns on pension plan assets. This accounting method results in the potential for volatile and difficult to forecast gains and losses. The pre-tax recognition of actuarial losses was $2.8 million and $34.7 million in 2020 and 2019, respectively. The total net actuarial losses in accumulated other comprehensive income for all defined benefit plans were $87.1 million as of December 31, 2020, compared to $87.4 million as of December 31, 2019.

We record amounts relating to these defined benefit plans based on various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current economic conditions and trends. We believe that the assumptions utilized in recording our obligations under our plans are reasonable based on our experience and on advice from our independent actuaries; however, differences in actual experience or changes in the assumptions may materially affect our financial condition or results of operations. The expected rate of return on plan assets is determined based on the nature of the plans' investments, our current asset allocation and our expectations for long-term rates of return. The weighted-average long-term expected rate of return on pension plan assets for the years ended December 31, 2020 and 2019 was 4.5% and 4.9%, respectively. Compensation increases reflect expected future compensation trends. The discount rate used to measure obligations is based on a spot-rate yield curve on a plan-by-plan basis that matches projected future benefit payments with the appropriate interest rate applicable to the timing of the projected future benefit payments. The bond portfolio used for the selection of the discount rate is from the top quartile of bonds rated by nationally recognized statistical rating organizations, and includes only non-callable bonds and those that are deemed to be sufficiently marketable with a Moody's credit rating of Aa or higher. The weighted-average discount rate for defined benefit liabilities as of December 31, 2020 and 2019 was 2.6% and 3.3%, respectively.

For postretirement benefits, our health care trend rate assumption is based on historical cost increases and expectations for long-term increases. As of December 31, 2020, for postretirement medical and prescription drugs in the next year, our assumption was an assumed rate of increase of 6.4% for pre-65 retirees and 7.4% for post-65 retirees, declining until reaching an ultimate assumed rate of increase of 4.5% per year in 2027. As of December 31, 2019, for postretirement medical and prescription drugs in the next year, our assumption was an assumed rate of increase of 6.7% for pre-65 retirees and 7.8% for post-65 retirees, declining until reaching an ultimate assumed rate of increase of 4.5% per year in 2027.

Below is a table showing pre-tax pension and postretirement expenses, including the impact of actuarial gains and losses:

(In millions)	*2020*	*2019*
Total pension (income) expense	$ (0.8)	$ 32.3
Actuarial loss component of expense above	2.7	34.1
Total postretirement expense	0.7	1.1
Actuarial loss component of expense above	0.1	0.6
Amortization of prior service credit component of expense above	—	0.2

The actuarial losses in 2020 were principally due to changes in discount rates offset by positive asset returns. The actuarial losses in 2019 were principally due to changes in discount rates. Discount rates in 2020 used to determine benefit obligations decreased by an average of 70 basis points for pension benefits. Discount rates for 2020 postretirement benefits decreased an average of 50 basis points. Discount rates in 2019 used to determine benefit obligations decreased by an average of 110 basis points for pension benefits. Discount rates for 2019 postretirement benefits increased an average of 220 basis points. Our actual return on plan assets in 2020 was 16.5% compared to an actuarial assumption of an average 4.5% expected return. Our actual return on plan assets in 2019 was 19.7% compared to an actuarial assumption of an average 4.9% expected return. Significant actuarial losses in future periods would be expected if discount rates decline, actual returns on plan assets are lower than our expected return, or a combination of both occurs.

A 25 basis point change in our discount rate assumption would lead to an increase or decrease in our pension and postretirement liability of approximately $30 million. A 25 basis point change in the long-term rate of return on plan assets used in accounting for our pension plans would have a $1.9 million impact on pension expense. In addition, if required, actuarial gains

and losses will be recorded in accordance with our defined benefit plan accounting method as previously described. It is not possible to forecast or predict whether there will be actuarial gains and losses in future periods, and if required, the magnitude of any such adjustment. These gains and losses are driven by differences in actual experience or changes in the assumptions that are beyond our control, such as changes in interest rates and the actual return on pension plan assets.

Income Taxes

In accordance with ASC requirements for Income Taxes, we establish deferred tax liabilities or assets for temporary differences between financial and tax reporting basis and subsequently adjust them to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance reducing deferred tax assets when it is more likely than not that such assets will not be realized.

We record liabilities for uncertain income tax positions based on a two-step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, no tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from our estimates. In future periods, changes in facts, circumstances, and new information may require us to change the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recorded in the consolidated statement of income and consolidated balance sheet in the period in which such changes occur. As of December 31, 2020, we had liabilities for unrecognized tax benefits pertaining to uncertain tax positions totaling $96.1 million. It is reasonably possible that the unrecognized tax benefits may decrease in the range of $4.0 million to $48.1 million in the next 12 months primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

Customer Program Costs

Customer programs and incentives are a common practice in our businesses. Our businesses incur customer program costs to obtain favorable product placement, to promote sales of products and to maintain competitive pricing. We record estimates to reduce revenue for customer programs and incentives, which are considered variable consideration, and include price discounts, volume-based incentives, promotions and cooperative advertising when revenue is recognized in order to determine the amount of consideration the Company will ultimately be entitled to receive. These estimates are based on historical and projected experience for each type of customer. In addition, for certain customer program incentives, we receive an identifiable benefit (goods or services) in exchange for the consideration given and record the associated expenditure in selling, general and administrative expenses. Volume allowances are accrued based on management's estimates of customer volume achievement and other factors incorporated into customer agreements, such as new products, store sell-through, merchandising support, levels of returns and customer training. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when circumstances indicate (typically as a result of a change in volume expectations).

Litigation Contingencies

Our businesses are subject to risks related to threatened or pending litigation and are routinely defendants in lawsuits associated with the normal conduct of business. Liabilities and costs associated with litigation-related loss contingencies require estimates and judgments based on our knowledge of the facts and circumstances surrounding each matter and the advice of our legal counsel. We record liabilities for litigation-related losses when a loss is probable and we can reasonably estimate the amount of the loss in accordance with ASC requirements for Contingencies. We evaluate the measurement of recorded liabilities each reporting period based on the then-current facts and circumstances specific to each matter. The ultimate losses incurred upon final resolution of litigation-related loss contingencies may differ materially from the estimated liability recorded at any particular balance sheet date. Changes in estimates are recorded in earnings in the period in which such changes occur.

Environmental Matters

We are involved in remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of future environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. Several of our subsidiaries have been designated as potentially responsible parties ("PRP") under "Superfund" or similar state laws. As of December 31, 2020, ten such instances have not been dismissed, settled or otherwise resolved. In 2020, none of our subsidiaries were identified as a PRP in a new instance and no instances were settled, dismissed or otherwise resolved. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe that the cost of complying with the present environmental protection laws, before considering estimated recoveries either from other PRPs or insurance, will not have a material adverse effect on our results of operations, cash flows or financial condition. At

December 31, 2020 and 2019, we had accruals of $0.3 and $0.2 million, respectively, relating to environmental compliance and cleanup including, but not limited to, the above mentioned Superfund sites.

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

We are exposed to various market risks, including changes in interest rates, foreign currency exchange rates and commodity prices. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes. We enter into financial instruments to manage and reduce the impact of changes in foreign currency exchange rates and commodity prices. The counterparties are major financial institutions.

Interest Rate Risk

The Company had $785 million of external variable rate borrowings as of December 31, 2020. A hypothetical 100 basis point change in interest rates affecting the Company's external variable rate borrowings as of December 31, 2020 would be $7.85 million on a pre-tax basis.

Foreign Exchange Rate Risk

We enter into forward foreign exchange contracts principally to hedge currency fluctuations in transactions denominated in certain foreign currencies, thereby limiting our risk that would otherwise result from changes in exchange rates. The periods of the forward foreign exchange contracts correspond to the periods of the hedged transactions.

The estimated fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

The estimated potential loss under foreign exchange contracts from movement in foreign exchange rates would not have a material impact on our results of operations, cash flows or financial condition. As part of our risk management procedure, we use a value-at-risk ("VAR") sensitivity analysis model to estimate the maximum potential economic loss from adverse changes in foreign exchange rates over a one-day period given a 95% confidence level. The VAR model uses historical foreign exchange rates to estimate the volatility and correlation of these rates in future periods. The estimated maximum one-day loss in the fair value of the Company's foreign currency exchange contracts using the VAR model was $0.7 million at December 31, 2020. The 95% confidence interval signifies our degree of confidence that actual losses under foreign exchange contracts would not exceed the estimated losses. The amounts disregard the possibility that foreign currency exchange rates could move in our favor. The VAR model assumes that all movements in the foreign exchange rates will be adverse. These amounts should not be considered projections of future losses, since actual results may differ significantly depending upon activity in the global financial markets. The VAR model is a risk analysis tool and should not be construed as an endorsement of the VAR model or the accuracy of the related assumptions.

Commodity Price Risk

We are subject to commodity price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. From time to time, we use derivative contracts to manage our exposure to commodity price volatility.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Fortune Brands Home & Security, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Fortune Brands Home & Security, Inc. and its subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of income, of comprehensive income, of equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2020 appearing after the signature page (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the

three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, 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 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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 described in Management's Report on Internal Control Over Financial Reporting, management has excluded Larson Manufacturing ("Larson") from its assessment of internal control over financial reporting as of December 31, 2020 because it was acquired by the Company in a purchase business combination during 2020. We have also excluded Larson from our audit of internal control over financial reporting. Larson is a wholly-owned subsidiary whose total assets and total sales excluded from management's assessment and our audit of internal control over financial reporting represent 2.3% and 0.0%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2020.

Definition and Limitations of Internal Control over Financial Reporting

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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or

disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Indefinite-Lived Intangible Asset Impairment Tests for Tradenames in the Cabinets Segment Where Fair Value Exceeds Carrying Value by Less Than 30%

As described in Notes 2 and 5 to the consolidated financial statements, the Company's consolidated indefinite-lived tradenames balance was $711.0 million as of December 31, 2020. The carrying value of the four tradenames in the Cabinets segment where fair value exceeds carrying value by less than 30% is $180.6 million as of December 31, 2020. Management reviews indefinite-lived tradename intangible assets for impairment annually in the fourth quarter and whenever market or business events indicate there may be a potential impairment of that intangible. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. In the first quarter of 2020, the Company recognized an impairment charge of $9.5 million related to an indefinite-lived tradename in the Cabinets segment. This charge was primarily the result of lower expected sales of custom cabinetry products related to the impact of COVID-19. Fair value is measured by management using the relief-from-royalty approach. Significant assumptions inherent in estimating fair values include forecasted revenue growth rates, assumed royalty rates and market-participant discount rates.

The principal considerations for our determination that performing procedures relating to the indefinite-lived intangible asset impairment tests for tradenames in the Cabinets segment where fair value exceeds carrying value by less than 30% is a critical audit matter are (i) the significant judgment by management when developing the fair value measurement of the tradenames; (ii) the high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to the forecasted revenue growth rates, the assumed royalty rates, and the market-participant discount rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's indefinite-lived intangible asset impairment tests, including controls over the valuation of the Company's indefinite-lived tradenames. These procedures also included, among others (i) testing management's process for developing the fair value measurements of tradenames in the Cabinets segment where fair value exceeds carrying value by less than 30%; (ii) evaluating the appropriateness of the relief-from-royalty approach; (iii) testing the completeness and accuracy of underlying data used in the approach; and (iv) evaluating the reasonableness of significant assumptions used by management related to the forecasted revenue growth rates, the assumed royalty rates, and the market-participant discount rates. Evaluating management's assumptions related to the forecasted revenue growth rates and assumed royalty rates involved evaluating whether the assumptions used by management were reasonable considering, as applicable, (i) the current and past performance of the business associated with the tradenames; (ii) the consistency with external market and industry data; and (iii) whether the assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of (i) the appropriateness of the relief-from-royalty approach and (ii) the reasonableness of the significant assumptions related to the assumed royalty rates and market-participant discount rates.

Valuation of Customer Relationships and Tradename Related to the Larson Acquisition

As described in Notes 2 and 4 to the consolidated financial statements, the Company acquired Larson Manufacturing in December 2020 for a total purchase price of approximately $715.2 million, net of cash acquired, which resulted in a customer relationships asset of $168.0 million and an indefinite-lived tradename of $111.0 million being recorded. Management uses the multi-period excess earnings method to determine the fair value of customer relationships and the relief-from-royalty approach to determine the fair value of the tradename. Management applied significant judgment in determining the estimates and assumptions used to determine the fair value of identifiable intangible assets, including forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rates.

The principal considerations for our determination that performing procedures over the valuation of the customer relationships and tradename related to the Larson acquisition is a critical audit matter are (i) the significant judgment by management when developing the fair value measurements of the customer relationships and tradename; (ii) the high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to the forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rate; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management's valuation of the customer relationships and tradename. These procedures also included, among others (i) reading the purchase agreement; (ii) testing management's process for developing the fair value measurements of the customer relationships and tradename; (iii) evaluating the appropriateness of the multi-period excess earnings method and relief-from-royalty approach; (iv) testing the completeness and accuracy of underlying data used in these valuation techniques; and (v) evaluating the reasonableness of the significant assumptions used by management related to the forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rate. Evaluating management's assumptions related to the forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, and the assumed royalty rate involved considering, as applicable, (i) the current and past performance of Larson; (ii) the consistency with external market and industry data; and (iii) whether the assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of (i) the appropriateness of the multi-period excess earnings method and relief-from-royalty approach and (ii) the reasonableness of the significant assumptions related to the contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rate.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 24, 2021

We have served as the Company's auditor since 2011.

Consolidated Statements of Income

Fortune Brands Home & Security, Inc. and Subsidiaries

(In millions, except per share amounts)	For years ended December 31 *2020*	2019	2018
NET SALES	$ 6,090.3	$ 5,764.6	$ 5,485.1
Cost of products sold	3,925.9	3,712.2	3,525.7
Selling, general and administrative expenses	1,282.6	1,256.3	1,241.4
Amortization of intangible assets	42.0	41.4	36.1
Asset impairment charges	22.5	41.5	62.6
Restructuring charges	15.9	14.7	24.1
OPERATING INCOME	801.4	698.5	595.2
Interest expense	83.9	94.2	74.5
Other (income) expense, net	(13.3)	29.0	(16.3)
Income from continuing operations before income taxes	730.8	575.3	537.0
Income taxes	168.8	144.0	147.0
Income after tax	562.0	431.3	390.0
Equity in losses of affiliate	7.6	—	—
Income from continuing operations, net of tax	554.4	431.3	390.0
Loss from discontinued operations, net of tax	—	—	(0.2)
NET INCOME	554.4	431.3	389.8
Less: Noncontrolling interests	1.3	(0.6)	0.2
NET INCOME ATTRIBUTABLE TO FORTUNE BRANDS	$ 553.1	$ 431.9	$ 389.6
BASIC EARNINGS PER COMMON SHARE			
Continuing operations	$ 3.99	$ 3.09	$ 2.69
Discontinuing operations	—	—	—
Net income attributable to Fortune Brands common stockholders	$ 3.99	$ 3.09	$ 2.69
DILUTED EARNINGS PER COMMON SHARE			
Continuing operations	$ 3.94	$ 3.06	$ 2.66
Discontinuing operations	—	—	—
Net income attributable to Fortune Brands common stockholders	$ 3.94	$ 3.06	$ 2.66
Basic average number of shares outstanding	138.7	139.9	144.6
Diluted average number of shares outstanding	140.2	141.3	146.4

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

Fortune Brands Home & Security, Inc. and Subsidiaries

	For years ended December 31		
(In millions)	*2020*	2019	2018
NET INCOME	$ 554.4	$ 431.3	$ 389.8
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	18.7	13.8	(31.1)
Unrealized (losses) gains on derivatives:			
Unrealized holding (losses) gains arising during period	(3.2)	4.8	10.1
Less: reclassification adjustment for losses (gains) included in net income	2.4	(4.4)	(2.1)
Unrealized (losses) gains on derivatives	(0.8)	0.4	8.0
Defined benefit plans:			
Net actuarial gains (loss) arising during period	0.3	(15.9)	(4.2)
Defined benefit plans	0.3	(15.9)	(4.2)
Other comprehensive income (loss), before tax	18.2	(1.7)	(27.3)
Income tax (expense) benefit related to items of other comprehensive income (a)	(0.7)	4.7	(0.5)
Other comprehensive income (loss), net of tax	17.5	3.0	(27.8)
COMPREHENSIVE INCOME	571.9	434.3	362.0
Less: comprehensive income attributable to noncontrolling interest	1.3	(0.6)	0.2
COMPREHENSIVE INCOME ATTRIBUTABLE TO FORTUNE BRANDS	$ 570.6	$ 434.9	$ 361.8

(a) *Income tax (expense) benefit on unrealized (losses) gains on derivatives of $(0.5) million, $0.9 million and $(1.4) million and on defined benefit plans of $(0.2) million, $3.8 million and $0.9 million in 2020, 2019 and 2018, respectively.*

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

	December 31	
(In millions)	*2020*	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 419.1	$ 387.9
Accounts receivable less allowances for discounts and credit losses	734.9	624.8
Inventories	867.2	718.6
Other current assets	187.3	166.9
TOTAL CURRENT ASSETS	2,208.5	1,898.2
Property, plant and equipment, net of accumulated depreciation	917.4	824.2
Operating lease assets	170.2	165.6
Goodwill	2,394.8	2,090.2
Other intangible assets, net of accumulated amortization	1,420.3	1,168.9
Other assets	247.5	144.2
TOTAL ASSETS	$ 7,358.7	$ 6,291.3
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	—	399.7
Accounts payable	620.5	460.0
Other current liabilities	724.6	549.6
TOTAL CURRENT LIABILITIES	1,345.1	1,409.3
Long-term debt	2,572.2	1,784.6
Deferred income taxes	160.5	157.2
Accrued defined benefit plans	159.5	201.4
Operating lease liabilities	140.5	139.8
Other non-current liabilities	205.4	171.2
TOTAL LIABILITIES	4,583.2	3,863.5
Commitments (Note 17) and Contingencies (Note 22)		
Equity		
Common stock [a]	1.8	1.8
Paid-in capital	2,926.3	2,813.8
Accumulated other comprehensive loss	(55.1)	(72.6)
Retained earnings	2,180.2	1,763.0
Treasury stock	(2,277.7)	(2,079.4)
TOTAL FORTUNE BRANDS EQUITY	2,775.5	2,426.6
Noncontrolling interests	—	1.2
TOTAL EQUITY	2,775.5	2,427.8
TOTAL LIABILITIES AND EQUITY	$ 7,358.7	$ 6,291.3

(a) Common stock, par value $0.01 per share, 184.1 million shares and 181.9 million shares issued at December 31, 2020 and 2019, respectively.

See Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Cash Flows

Fortune Brands Home & Security, Inc. and Subsidiaries

	For years ended December 31		
(In millions)	*2020*	2019	2018
OPERATING ACTIVITIES			
Net income	$ 554.4	$ 431.3	$ 389.8
Non-cash expense (income):			
Depreciation	121.5	111.3	113.5
Amortization of intangibles	42.0	41.4	36.1
Non-cash lease expense	37.4	35.9	—
Stock-based compensation	47.6	30.5	36.1
Loss (gain) on sale of property, plant and equipment	2.4	(0.4)	1.2
Gain on equity investments	(6.6)	—	—
Asset impairment charges	26.1	43.2	62.6
Recognition of actuarial losses	3.2	34.1	3.8
Deferred taxes	(14.6)	(7.5)	2.8
Amortization of deferred financing costs	4.5	3.4	2.3
Changes in assets and liabilities including effects subsequent to acquisitions			
(Increase) decrease in accounts receivable	(85.7)	(50.7)	9.8
Increase in inventories	(91.8)	(38.3)	(55.0)
Increase in accounts payable	142.9	8.7	21.0
Increase in other assets	(41.1)	(10.5)	(24.7)
Increase (decrease) in accrued taxes	12.5	(5.3)	9.5
Increase (decrease) in accrued expenses and other liabilities	71.0	10.1	(4.8)
NET CASH PROVIDED BY OPERATING ACTIVITIES	825.7	637.2	604.0
INVESTING ACTIVITIES			
Capital expenditures[a]	(150.5)	(131.8)	(150.1)
Proceeds from the disposition of assets	1.6	4.2	6.1
Cost of acquisitions, net of cash acquired	(715.2)	—	(465.6)
Cost of investments in equity securities	(59.4)	—	(28.7)
Other investing activities, net	—	—	4.0
NET CASH USED IN INVESTING ACTIVITIES	(923.5)	(127.6)	(634.3)
FINANCING ACTIVITIES			
(Decrease) increase in short-term debt	—	(525.0)	525.0
Issuance of long-term debt	1,850.0	1,719.3	2,191.2
Repayment of long-term debt	(1,465.0)	(1,345.0)	(1,890.0)
Proceeds from the exercise of stock options	64.9	17.3	4.9
Employee withholding taxes paid related to stock-based compensation	(10.7)	(8.7)	(14.0)
Deferred acquisition payments	—	(19.0)	(13.1)
Dividends to stockholders	(133.3)	(123.0)	(115.2)
Dividends paid to non-controlling interests	(2.5)	—	—
Treasury stock purchases	(187.6)	(100.0)	(694.6)
Other financing activities, net	(4.2)	(5.6)	(1.0)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	111.6	(389.7)	(6.8)
Effect of foreign exchange rate changes on cash	16.3	4.3	(15.2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 30.1	$ 124.2	$ (52.3)
Cash, cash equivalents and restricted cash[b] at beginning of year	$ 394.9	$ 270.7	$ 323.0
Cash, cash equivalents and restricted cash[b] at end of year	$ 425.0	$ 394.9	$ 270.7
Cash paid during the year for			
Interest	$ 76.2	$ 81.0	$ 63.4
Income taxes paid directly to taxing authorities	175.5	144.5	114.2
Dividends declared but not paid	36.1	33.5	30.9

(a) Capital expenditures of $13.6 million, $10.0 million and $16.7 million that have not been paid as of December 31, 2020, 2019 and 2018, respectively, were excluded from the Consolidated Statement of Cash Flows.

(b) Restricted cash of $1.0 million and $4.9 million is included in Other current assets and Other assets, respectively, as of December 31, 2020, $0.9 million and $6.1 million is included in Other current assets and Other assets, respectively, as of December 31, 2019 and $0.9 million and $6.9 million is included in Other current assets and Other assets, respectively, as of December 31, 2018 within our Consolidated Balance Sheet.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Equity

Fortune Brands Home & Security, Inc. and Subsidiaries

(In millions)	Common Stock	Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2017	$ 1.7	$ 2,724.9	$ (39.2)	$ 1,174.2	$ (1,262.1)	$ 1.6	$ 2,601.1
Comprehensive income:							
Net income	—	—	—	389.6	—	0.2	389.8
Other comprehensive income (loss)	—	—	(27.8)	—	—	—	(27.8)
Stock options exercised	0.1	5.0	—	—	—	—	5.1
Stock-based compensation	—	36.1	—	—	(14.0)	—	22.1
Treasury stock purchase	—	—	—	—	(694.6)	—	(694.6)
Dividends ($0.82 per Common share)	—	—	—	(115.7)	—	—	(115.7)
Balance at December 31, 2018	$ 1.8	$ 2,766.0	$ (67.0)	$ 1,448.1	$ (1,970.7)	$ 1.8	$ 2,180.0
Comprehensive income:							
Net income	—	—	—	431.9	—	(0.6)	431.3
Other comprehensive income (loss)	—	—	3.0	—	—	—	3.0
Stock options exercised	—	17.3	—	—	—	—	17.3
Stock-based compensation	—	30.5	—	—	(8.7)	—	21.8
Adoption of ASU 2018-02	—	—	(8.6)	8.6	—	—	—
Treasury stock purchase	—	—	—	—	(100.0)	—	(100.0)
Dividends ($0.90 per Common share)	—	—	—	(125.6)	—	—	(125.6)
Balance at December 31, 2019	$ 1.8	$ 2,813.8	$ (72.6)	$ 1,763.0	$ (2,079.4)	$ 1.2	$ 2,427.8
Comprehensive income:							
Net income	—	—	—	553.1	—	1.3	554.4
Other comprehensive income (loss)	—	—	17.5	—	—	—	17.5
Stock options exercised	—	64.9	—	—	—	—	64.9
Stock-based compensation	—	47.6	—	—	(10.7)	—	36.9
Treasury stock purchase	—	—	—	—	(187.6)	—	(187.6)
Dividends to non-controlling interest	—	—	—	—	—	(2.5)	(2.5)
Dividends ($0.98 per Common share)	—	—	—	(135.9)	—	—	(135.9)
Balance at December 31, 2020	$ 1.8	$ 2,926.3	$ (55.1)	$ 2,180.2	$ (2,277.7)	$ —	$ 2,775.5

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Background and Basis of Presentation

The Company is a leading home and security products company with a portfolio of leading branded products used for residential home repair, remodeling, new construction and security applications. References to “Fortune Brands,” “the Company,” “we,” “our” and “us” refer to Fortune Brands Home & Security, Inc. and its consolidated subsidiaries as a whole, unless the context otherwise requires.

Basis of Presentation

The consolidated financial statements in this Annual Report on Form 10-K have been derived from the accounts of the Company and its wholly-owned subsidiaries. The Company’s consolidated financial statements are based on a fiscal year ending December 31. Certain of the Company’s subsidiaries operate on a 52 or 53 week fiscal year ending during the month of December.

In the fourth quarter of 2020, our Doors & Security segment was renamed “Outdoors & Security”. The Outdoors & Security segment name change is to the name only and had no impact on the Company’s historical financial position, results of operations, cash flow or segment level results previously reported.

In December 2020, we acquired 100% of the outstanding equity of Larson Manufacturing ("Larson"), the North American market leading brand of storm, screen and security doors. Larson also sells related outdoor living products including retractable screens and porch windows. The acquisition is aligned with our strategic focus on the fast-growing outdoor living space. The Company completed the acquisition for a total purchase price of approximately $715.2 million, net of cash acquired and closing date working capital adjustments. The acquisition cost is further subject to the final post-closing working capital adjustment. We financed the transaction with borrowings under our existing credit facilities. The financial results of Larson were included in the Company’s consolidated balance sheet as of December 31, 2020. Larson's net sales, operating income and cash flows from the date of acquisition to December 31, 2020 were not material to the Company. The results of operations are included in the Outdoors & Security segment.

2. Significant Accounting Policies

Use of Estimates The presentation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results in future periods could differ from those estimates.

Cash and Cash Equivalents Highly liquid investments with an original maturity of three months or less are included in cash and cash equivalents.

Allowances for Credit Losses Trade receivables are recorded at the stated amount, less allowances for discounts and credit losses. The allowances represent estimated uncollectible receivables associated with potential customer defaults on contractual obligations (usually due to customers’ potential insolvency) or discounts related to early payment of accounts receivables by our customers. The allowances for credit losses include provisions for certain customers where a risk of default has been specifically identified. In addition, the allowances include a provision for expected customer defaults on a general formula basis when it cannot yet be associated with specific customers. Expected credit losses are estimated using various factors, including the length of time the receivables are past due, historical collection experience and existing economic conditions. In accordance with this policy, our allowance for credit losses was $6.7 million and $3.0 million as of December 31, 2020 and 2019, respectively.

Inventories Inventory provisions are recorded to reduce inventory to the net realizable dollar value for obsolete or slow moving inventory based on assumptions about future demand and marketability of products, the impact of new product introductions, inventory levels and turns, product spoilage and specific identification of items, such as product discontinuance, engineering/material changes, or regulatory-related changes.

During the fourth quarter of 2018, we determined that it was preferable to change our accounting policy from last-in, first-out (“LIFO”) to first-in, first out (“FIFO”) for product groups in which metals comprise a significant portion of inventory cost. We believe this change is preferable because it results in a uniform method to value our inventory across all our segments, improves comparability with our peers, and is expected to better reflect the current value of inventory on the consolidated balance sheets. The change in costing method, which affected our Plumbing and Outdoors & Security segments, was recognized during the fourth quarter of 2018, by adjusting the cost of inventories to FIFO, resulting in a pretax benefit of approximately $7.3 million ($5.5 million after tax) to Cost of products sold in the consolidated statements of income for the year ended December 31, 2018. There were no inventories valued using LIFO as of December 31, 2020 or 2019.

Property, Plant and Equipment Property, plant and equipment are carried at cost. Depreciation is provided, principally on a straight-line basis, over the estimated useful lives of the assets. Gains or losses resulting from dispositions are included in operating income. Betterments and renewals, which improve and extend the life of an asset, are capitalized; maintenance and repair costs are expensed as incurred. Assets held for use to be disposed of at a future date are depreciated over the remaining useful life. Assets to be sold are written down to fair value less costs to sell at the time the assets are being actively marketed for sale. Estimated useful lives of the related assets are as follows:

Buildings and leasehold improvements	15 to 40 years
Machinery and equipment	3 to 15 years
Software	3 to 7 years

Long-lived Assets In accordance with Accounting Standards Codification ("ASC") requirements for Property, Plant and Equipment, a long-lived asset (including amortizable identifiable intangible assets) or asset group held for use is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, we compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of a long-lived asset or asset group. The cash flows are based on our best estimate of future cash flows derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value. Fair value is estimated primarily using discounted expected future cash flows on a market-participant basis.

During 2020, we recorded an impairment of $3.6 million related to a long-lived asset to be disposed of in selling, general and administrative expenses. During 2019, we recorded an impairment of $1.7 million related to a long-lived asset to be disposed of in cost of products sold. No impairments of long-lived assets were recorded during 2018.

Leases Operating lease assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at commencement date. As most of our lease contracts do not provide an explicit interest rate, we use our incremental borrowing rate in determining the present value of future lease payments. Our incremental borrowing rates include estimates related to the impact of collateralization and the economic environment where the leased asset is located. The operating lease assets also include any prepaid lease payments and initial direct costs incurred, but exclude lease incentives received at lease commencement. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Our leases have remaining lease terms of 1 to 35 years, some of which may include options to extend or terminate the lease. Operating lease expense is recognized on a straight-line basis over the lease term.

We do not recognize leases with an initial term of twelve months or less on the balance sheet and instead recognize the related lease payments as expense in the statement of comprehensive income on a straight-line basis over the lease term. We account for lease and non-lease components as a single lease component for all asset classes. Additionally, for certain equipment leases, we apply a portfolio approach and account for multiple lease components as a single lease component.

Certain lease agreements include variable rental payments, including rental payments adjusted periodically for inflation. Variable rental payments are expensed during the period they are incurred and therefore are excluded from our lease assets and liabilities. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Business Combinations We account for business combinations under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations,* which requires an allocation of the consideration we paid to the identifiable assets, intangible assets and liabilities based on the estimated fair values as of the closing date of the acquisition. The excess of the fair value of the purchase price over the fair values of these identifiable assets, intangible assets and liabilities is recorded as goodwill.

Purchased intangibles other than goodwill are initially recognized at fair value and amortized over their useful lives unless those lives are determined to be indefinite. The valuation of acquired assets will impact future operating results. The fair value of identifiable intangible assets is determined using an income approach on an individual asset basis. Specifically, we use the multi-period excess earnings method to determine the fair value of customer relationships and the relief-from-royalty approach to determine the fair value of the tradename and proprietary technology. Determining the fair value of acquired intangibles involves significant estimates and assumptions, including forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rates.

The determination of the useful life of an intangible asset other than goodwill is based on factors including historical tradename performance with respect to consumer name recognition, geographic market presence, market share, plans for ongoing tradename support and promotion, customer attrition rate, and other relevant factors.

Goodwill and Indefinite-lived Intangible Assets In accordance with ASC requirements for Intangibles - Goodwill and Other, goodwill is tested for impairment at least annually in the fourth quarter and written down when impaired. An interim impairment test is performed if an event occurs or conditions change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

To evaluate the recoverability of goodwill, we first assess qualitative factors to determine whether it is more likely than not that goodwill is impaired. Qualitative factors include changes in volume, margin, customers and the industry. If it is deemed more likely than not that goodwill for a reporting unit is impaired, we will perform a quantitative impairment test using a weighting of the income and market approaches. For the income approach, we use a discounted cash flow model, estimating the future cash flows of the reporting units to which the goodwill relates and then discounting the future cash flows at a market-participant-derived discount rate. In determining the estimated future cash flows, we consider current and projected future levels of income based on management's plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. Furthermore, our cash flow projections used to assess impairment of our goodwill and other intangible assets are significantly influenced by our projection for the U.S. home products market, our annual operating plans finalized in the fourth quarter of each year, and our ability to execute on various planned cost reduction initiatives supporting operating income improvements. Our projection for the U.S. home products market is inherently uncertain and is subject to a number of factors, such as employment, home prices, credit availability, new home starts and the rate of home foreclosures. For the market approach, we apply market multiples for peer groups to the current operating results of the reporting units to determine each reporting unit's fair value. The Company's reporting units are operating segments, or one level below operating segments when appropriate. When the estimated fair value of a reporting unit is less than its carrying value, we measure and recognize the amount of the goodwill impairment loss based on that difference.

The significant assumptions that are used to determine the estimated fair value for goodwill impairment testing include the following: third-party market forecasts of U.S. new home starts and home repair and remodel spending; management's sales, operating income and cash flow forecasts; peer company EBITDA earnings multiples; the market-participant-based discount rate; and the perpetuity growth rate. Our estimates of reporting unit fair values are based on certain assumptions that may differ from our historical and future actual operating performance. Specifically, assumptions related to growth in the new construction and repair and remodel segments of the U.S. home products markets drive our forecasted sales growth. The market forecasts are developed using independent third-party forecasts from multiple sources. In addition, estimated future operating income and cash flow consider our historical performance at similar levels of sales volume and management's future operating plans as reflected in annual and long-term plans that are reviewed and approved by management.

Certain of our tradenames have been assigned an indefinite life as we currently anticipate that these tradenames will contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets are not amortized, but are evaluated at least annually to determine whether the indefinite useful life is appropriate. We measure the fair value of identifiable intangible assets upon acquisition and we review for impairment annually in the fourth quarter and whenever market or business events indicate there may be a potential impairment of that intangible. Impairment losses are recorded to the extent that the carrying value of the indefinite-lived intangible asset exceeds its fair value. The significant assumptions that are used to determine the estimated fair value for indefinite-lived intangible assets upon acquisition and subsequent impairment testing are forecasted revenue growth rates; the assumed royalty rates; and the market-participant discount rates. We measure fair value of our indefinite-lived tradenames using the relief-from-royalty approach which estimates the present value of royalty income that could be hypothetically earned by licensing the brand name to a third party over the remaining useful life. The determination of fair value using this technique requires the use of estimates and assumptions related to forecasted revenue growth rates, the assumed royalty rates and the market-participant discount rates. We first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. Qualitative factors include changes in volume, customers and the industry. If it is deemed more likely than not that an intangible asset is impaired, we will perform a quantitative impairment test. See Note 5, “Goodwill and Identifiable Intangible Assets,” for additional information.

Events or circumstances that could have a potential negative effect on the estimated fair value of our reporting units and indefinite-lived tradenames include: lower than forecasted revenues, actual new construction and repair and remodel growth rates that fall below our assumptions, actions of key customers, increases in discount rates, continued economic uncertainty, higher levels of unemployment, weak consumer confidence, lower levels of discretionary consumer spending, a decrease in royalty rates and decline in the trading price of our common stock. We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill and indefinite-lived assets.

Investments in Equity Securities In accordance with ASC requirements for investments in equity securities, we utilize the equity method to account for investments when we possess the ability to exercise significant influence, but not control, over the operating and financial policies of the investee. The ability to exercise significant influence is presumed when the investor possesses more than 20% of the voting interests of the investee. This presumption may be overcome based on specific facts and circumstances that demonstrate that the ability to exercise significant influence is restricted. In applying the equity method, we record our investment at cost and subsequently increase or decrease the carrying amount of the investment by our proportionate share of the net earnings or losses of the investee. We record dividends or other equity distributions as reductions in the carrying value of our investment.

When we do not have the ability to exercise significant influence over the operating and financial policies of the investee, we account for non-controlling investments in equity securities at fair value, with any gains or losses recognized through other income and expense. Equity securities without readily determinable fair values are recorded at cost minus impairment, plus or minus any changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer.

As of December 31, 2020, all of our investments in our strategic partners where we do not have significant influence over the investee do not have readily determinable fair values. As of December 31, 2020 and 2019, the carrying value of our investments was $3.5 million and $29.2 million, respectively, which is included in other assets within our Consolidated Balance Sheet. There were no impairments or other changes resulting from observable prices changes recorded during the years ended December 31, 2020, 2019 or 2018.

Defined Benefit Plans We have a number of pension plans in the United States, covering many of the Company's employees. In addition, the Company provides postretirement health care and life insurance benefits to certain retirees. Service cost for 2020 relates to benefit accruals for an hourly Union group within the defined benefit plan for our Outdoors & Security segment. All other benefit accruals under our defined benefit pension plans were frozen as of, or prior to, December 31, 2016.

We record amounts relating to these plans based on calculations in accordance with ASC requirements for Compensation – Retirement Benefits, which include various actuarial assumptions, including discount rates, assumed rates of return, compensation increases, turnover rates and health care cost trend rates. We recognize changes in the fair value of pension plan assets and net actuarial gains or losses in excess of 10 percent of the greater of the fair value of pension plan assets or each plan's projected benefit obligation (the "corridor") in earnings immediately upon remeasurement, which is at least annually in the fourth quarter of each year. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current economic conditions and trends. The discount rate used to measure obligations is based on a spot-rate yield curve on a plan-by-plan basis that matches projected future benefit payments with the appropriate interest rate applicable to the timing of the projected future benefit payments. The expected rate of return on plan assets is determined based on the nature of the plans' investments, our current asset allocation and our expectations for long-term rates of return. Compensation increases reflect expected future compensation trends. For postretirement benefits, our health care trend rate assumption is based on historical cost increases and expectations for long-term increases. The cost or benefit of plan changes, such as increasing or decreasing benefits for prior employee service (prior service cost), is deferred and included in expense on a straight-line basis over the average remaining service period of the related employees. We believe that the assumptions utilized in recording obligations under our plans, which are presented in Note 14, "Defined Benefit Plans," are reasonable based on our experience and on advice from our independent actuaries; however, differences in actual experience or changes in the assumptions may materially affect our financial position and results of operations. We will continue to monitor these assumptions as market conditions warrant.

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

Litigation Contingencies Our businesses are subject to risks related to threatened or pending litigation and are routinely defendants in lawsuits associated with the normal conduct of business. Liabilities and costs associated with litigation-related loss contingencies require estimates and judgments based on our knowledge of the facts and circumstances surrounding each matter and the advice of our legal counsel. We record liabilities for litigation-related losses when a loss is probable and we can reasonably estimate the amount of the loss in accordance with ASC requirements for Contingencies. We evaluate the measurement of recorded liabilities each reporting period based on the then-current facts and circumstances specific to each matter. The ultimate losses incurred upon final resolution of litigation-related loss contingencies may differ materially from the estimated liability recorded at any particular balance sheet date. Changes in estimates are recorded in earnings in the period in which such changes occur.

Income Taxes In accordance with ASC requirements for Income Taxes, we establish deferred tax liabilities or assets for temporary differences between financial and tax reporting basis and subsequently adjust them to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance reducing deferred tax assets when it is more likely than not that such assets will not be realized.

We record liabilities for uncertain income tax positions based on a two-step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, no tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit to be recorded. The actual benefits ultimately realized may differ from our estimates. In future periods, changes in facts, circumstances, and new information may require us to change the recognition and measurement estimates with regard to individual tax positions.

Changes in recognition and measurement estimates are recorded in the consolidated statement of income and consolidated balance sheet in the period in which such changes occur. As of December 31, 2020, we had liabilities for unrecognized tax benefits pertaining to uncertain tax positions totaling $96.1 million. It is reasonably possible that the unrecognized tax benefits may decrease in the range of $4.0 million to $48.1 million in the next 12 months primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) made significant changes to the U.S. Internal Revenue Code including a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, an exemption from federal income tax for dividends received from foreign subsidiaries and an imposition of a one-time transition tax on the deemed repatriation of cumulative foreign earnings and profits as of December 31, 2017.

Revenue Recognition The Company recognizes revenue for the sale of goods based on its assessment of when control transfers to our customers. See Note 13, “Revenue,” for additional information.

Cost of Products Sold Cost of products sold includes all costs to make products saleable, such as labor costs, inbound freight, purchasing and receiving costs, inspection costs and internal transfer costs. In addition, all depreciation expense associated with assets used to manufacture products and make them saleable is included in cost of products sold.

Customer Program Costs Customer programs and incentives are a common practice in our businesses. Our businesses incur customer program costs to obtain favorable product placement, to promote sales of products and to maintain competitive pricing. We record estimates to reduce revenue for customer programs and incentives, which are considered variable consideration, and include price discounts, volume-based incentives, promotions and cooperative advertising when revenue is recognized in order to determine the amount of consideration the Company will ultimately be entitled to receive. These estimates are based on historical and projected experience for each type of customer. In addition, for certain customer program incentives, we receive an identifiable benefit (goods or services) in exchange for the consideration given and record the associated expenditure in selling, general and administrative expenses. Volume allowances are accrued based on management’s estimates of customer volume achievement and other factors incorporated into customer agreements, such as new products, store sell-through, merchandising support, levels of returns and customer training. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when circumstances indicate (typically as a result of a change in volume expectations). The costs typically recognized in selling, general and administrative expenses include product displays, point of sale materials and media production costs. The costs included in the selling, general and administrative expenses category were $64.7 million, $66.3 million and $66.5 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Selling, General and Administrative Expenses Selling, general and administrative expenses include advertising costs; marketing costs; selling costs, including commissions; research and development costs; shipping and handling costs, including warehousing costs; and general and administrative expenses. Shipping and handling costs included in selling, general and administrative expenses were $232.6 million, $225.5 million and $215.9 million in 2020, 2019 and 2018, respectively.

Advertising costs, which amounted to $259.4 million, $251.7 million and $243.6 million in 2020, 2019 and 2018, respectively, are principally expensed as incurred. Advertising costs paid to customers as pricing rebates include product displays, marketing administration costs, media production costs and point of sale materials. Advertising costs recorded as a reduction to net sales, primarily cooperative advertising, were $66.7 million, $74.0 million and $72.4 million in 2020, 2019 and 2018, respectively. Advertising costs recorded in selling, general and administrative expenses were $192.7 million, $177.7 million and $171.2 million in 2020, 2019 and 2018, respectively.

Research and development expenses include product development, product improvement, product engineering and process improvement costs. Research and development expenses, which were $49.9 million, $48.2 million and $50.3 million in 2020, 2019 and 2018, respectively, are expensed as incurred within selling, general and administrative expenses.

Stock-based Compensation Stock-based compensation expense, measured as the fair value of an award on the date of grant, is recognized in the financial statements over the period that an employee is required to provide services in exchange for the award. The fair value of each option award is measured on the date of grant using the Black-Scholes option-pricing model. The fair value of each performance share award is based on the average of the high and low share prices on the date of grant and the probability of meeting performance targets. The fair value of each restricted stock unit granted is equal to the average of the high and low share prices on the date of grant. See Note 12, “Stock-Based Compensation,” for additional information.

Earnings Per Share Earnings per common share is calculated by dividing net income attributable to Fortune Brands by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per common share include the impact of all potentially dilutive securities outstanding during the year. See Note 20, “Earnings Per Share,” for further discussion.

Foreign Currency Translation Foreign currency balance sheet accounts are translated into U.S. dollars at the actual rates of exchange at the balance sheet date. Income and expenses are translated at the average rates of exchange in effect during the period for the foreign subsidiaries where the local currency is the functional currency. The related translation adjustments are made directly to a separate component of the “accumulated other comprehensive income” (“AOCI”) caption in equity. Transactions denominated in a currency other than the functional currency of a subsidiary are translated into functional currency with resulting transaction gains or losses recorded in other expense, net.

Derivative Financial Instruments In accordance with Accounting Standards Codification ("ASC") requirements for Derivatives and Hedging, we recognize all derivative contracts as either assets or liabilities on the balance sheet, and the measurement of those instruments is at fair value. If the derivative is designated as a fair value hedge and is effective, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the same period. If the derivative is designated as a cash flow hedge, the changes in the fair value of the derivative are recorded in other comprehensive income (“OCI”) and are recognized in the consolidated statement of income when the hedged item affects earnings. If the derivative is designated as an effective economic hedge of the net investment in a foreign operation, the changes in the fair value of the derivative is reported in the cumulative translation adjustment section of OCI. Similar to foreign currency translation adjustments, these changes in fair value are recognized in earnings only when realized upon sale or upon complete or substantially complete liquidation of the investment in the foreign entity.

Deferred currency (loss) gains of $(3.0) million, $4.1 million and $2.2 million (before tax impact) were reclassified into earnings for the years ended December 31, 2020, 2019 and 2018, respectively. Based on foreign exchange rates as of December 31, 2020, we estimate that $2.0 million of net derivative gain included in AOCI as of December 31, 2020 will be reclassified to earnings within the next twelve months.

Recently Issued Accounting Standards

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, which requires lessees to recognize almost all leases on their balance sheet as “right-of-use” assets and lease liabilities but recognize related expenses in a manner similar to previous accounting guidance. The guidance also eliminates previous real estate-specific provisions for all entities. In January 2018, the FASB issued ASU 2018-01, which clarifies the application of the new leases guidance to land easements. In July 2018, the FASB issued ASU 2018-10 and ASU 2018-11, which clarify certain guidance included in ASU 2016-02 and introduces a new optional transition method, which does not require revisions to comparative periods.

We adopted this standard as of January 1, 2019 using the transition method introduced by ASU 2018-11, which does not require revisions to comparative periods. We elected to implement the transition package of practical expedients permitted within the new standard, which among other things, allows us to carryforward the historical lease classification. In addition, we elected the hindsight practical expedient to determine the lease term for existing leases.

Adoption of the new standard resulted in the recording of lease assets and lease liabilities of approximately $177.2 million and $182.6 million, respectively, as of January 1, 2019. The difference between the lease assets and lease liabilities primarily relates to accrued rent and unamortized lease incentives recorded in accordance with the previous leasing guidance. The new standard did not materially impact our consolidated statements of income or cash flows.

Financial Instruments—Credit Losses

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, which changes the impairment model for most financial assets and certain other instruments that are not measured at fair value through net income. The new guidance applies to most financial assets measured at amortized cost, including trade and other receivables and loans as well as off-balance-sheet credit exposures (e.g., loan commitments and standby letters of credit). The standard replaced the “incurred loss” approach under the current guidance with an “expected loss” model that requires an entity to estimate its lifetime “expected credit loss.” We adopted this guidance on January 1, 2020. The adoption of this guidance did not have a material effect on our financial statements.

Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, which removed the requirement to disclose: 1) amount of and reasons for transfers between Levels 1 and 2 of the fair value hierarchy, 2) policy for timing of transfers between levels, and 3) valuation processes for Level 3 investments. In addition, this guidance modified and added other disclosure requirements, which primarily relate to valuation of Level 3 assets and liabilities. We adopted this guidance on January 1, 2020. The adoption of this guidance did not have a material effect on our financial statements.

Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

In August 2018, the FASB issued ASU 2018-15, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Costs to obtain software, including configuration and integration with legacy IT systems, coding and testing, including parallel process phases are eligible for capitalization under the new standard. In addition, activities that would be expensed include costs related to vendor demonstrations, determining performance and technology requirements and training activities. We adopted this guidance on January 1, 2020. The adoption of this guidance did not have a material effect on our financial statements.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, which is intended to simplify accounting for income taxes and improve consistency in application. ASU 2019-12 amends certain elements of income tax accounting, including but not limited to intraperiod tax allocations, step-ups in tax basis of goodwill, and calculating taxes on year-to-date losses in interim periods. The guidance is effective for the Company's fiscal year beginning January 1, 2021, with early adoption permitted. We do not expect the adoption of this guidance to have a material effect on our financial statements.

Clarifications in Accounting for Equity Securities

In January 2020, the FASB issued ASU 2020-01, which clarifies the interactions between accounting for equity investments (ASC 321), equity method accounting (ASC 323) and derivatives and hedges (ASC 815). As a result of the ASU, when entities apply the measurement alternative to non-controlling equity investments under ASC 321, and must transition to the equity method of accounting because of an observable transaction, existing investments should be remeasured immediately before applying the equity method of accounting. Additionally, it states that if entities hold non-derivative forward contracts or purchased call options to acquire equity securities, such instruments should be measured using the fair value principles of ASC 321 before settlement or exercise. The Company early adopted this guidance on January 1, 2020, and as a result recognized non-cash gains of $11.0 million within other income in 2020 related to our investment in Flo Technologies, Inc.

Effects of Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, which provides relief from accounting analysis and impacts that may otherwise be required for modifications to agreements necessitated by reference rate reform. It also provides optional expedients to enable the continuance of hedge accounting where certain hedging relationships are impacted by reference rate reform. In January 2021, the FASB issued ASU 2021-01 which further clarifies the scope of ASU 2020-04. This optional guidance is effective immediately, and available to be used through December 31, 2022. We are assessing the impact that reference rate reform and the related adoption of this guidance may have on our financial statements.

3. Balance Sheet Information

Supplemental information on our year-end consolidated balance sheets is as follows:

(In millions)		2020		2019
Inventories:				
Raw materials and supplies	$	346.6	$	274.4
Work in process		76.7		72.2
Finished products		443.9		372.0
Total inventories	$	867.2	$	718.6
Property, plant and equipment:				
Land and improvements	$	75.9	$	66.3
Buildings and improvements to leaseholds		552.4		510.2
Machinery and equipment		1,411.5		1,316.2
Construction in progress		110.3		89.8
Property, plant and equipment, gross		2,150.1		1,982.5
Less: accumulated depreciation		1,232.7		1,158.3
Property, plant and equipment, net of accumulated depreciation	$	917.4	$	824.2
Other current liabilities:				
Accrued salaries, wages and other compensation	$	167.3	$	109.7
Accrued customer programs		196.2		179.5
Accrued taxes		70.8		39.3
Dividends payable		36.1		33.5
Other accrued expenses		254.2		187.6
Total other current liabilities	$	724.6	$	549.6

4. Acquisitions and Dispositions

In December 2020, we acquired 100% of the outstanding equity of Larson Manufacturing ("Larson"), the North American market leading brand of storm, screen and security doors. Larson also sells related outdoor living products including retractable screens and porch windows. The acquisition of Larson is aligned with our strategic focus on the fast-growing outdoor living space. The Company completed the acquisition for a total purchase price of approximately $715.2 million, net of cash acquired and closing date working capital adjustments. The acquisition cost is further subject to the final post-closing working capital adjustment. We financed the transaction with borrowings under our existing credit facilities. The financial results of Larson were included in the Company's consolidated balance sheet as of December 31, 2020. Larson's net sales, operating income and cash flows from the date of acquisition to December 31, 2020 were not material to the Company. The results of operations are included in the Outdoors & Security segment. We incurred $4.5 million of Larson acquisition-related transaction costs in the year ended December 31, 2020. The goodwill expected to be deductible for income tax purposes is approximately $290 million, subject to the finalization of the purchase price allocation.

The following table summarizes the preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed as of the date of the acquisition.

(In millions)		
Accounts receivable	$	42.3
Inventories		51.7
Property, plant and equipment		66.4
Goodwill		300.9
Identifiable intangible assets		313.0
Operating lease assets		6.2
Other assets		3.7
Total assets		784.2
Accounts payable		6.5
Other current liabilities and accruals		31.1
Other non-current liabilities		31.4
Net assets acquired[(a)]	$	715.2

(a) Net assets exclude $0.4 million of cash transferred to the Company as the result of the Larson acquisition.

The preceding purchase price allocation has been determined provisionally and is subject to revision as additional information about the fair value of individual assets and liabilities becomes available. We apply significant judgement in determining the

estimates and assumptions used to determine the fair value of the identifiable intangible assets, including forecasted revenue growth rates, EBITDA margins, percentage of revenue attributable to the tradename, contributory asset charges, customer attrition rate, market-participant discount rates and the assumed royalty rates. The Company is in the process of finalizing valuations of certain tangible and intangible assets, including property, plant and equipment and identifiable intangible assets. The provisional measurement of property, plant and equipment, identifiable intangible assets, and goodwill is subject to change. Any change in the acquisition date fair value of the acquired assets and liabilities will change the amount of the purchase price allocable to goodwill.

Goodwill includes expected sales and cost synergies. The goodwill will be included in our Outdoors & Security segment. Identifiable intangible assets consist of a finite-lived customer relationships asset of $168.0 million, an indefinite-lived tradename of $111.0 million and a finite-lived proprietary technology asset of $34.0 million. The useful life of the customer relationship intangible asset is estimated to be 13 years. The Larson tradename has been assigned an indefinite life as we currently anticipate that this tradename will contribute cash flows to the Company indefinitely. The useful life of the proprietary technology intangible asset is estimated to be 7 years. Customer and contractual relationships and proprietary technology are amortized on a straight-line basis over their useful lives.

The following unaudited pro forma summary presents consolidated financial information as if Larson had been acquired on January 1, 2019. The unaudited pro forma financial information is based on historical results of operations and financial position of the Company and Larson. The pro forma results include:

- estimated amortization of finite-lived intangible asset, including customer relationships and proprietary technology,
- the estimated cost of the inventory adjustment to fair value,
- interest expense associated with debt that would have been incurred in connection with the acquisition,
- the reclassification of Larson transaction costs from 2020 to the first quarter of 2019, and
- the removal of certain transactions recorded in the historical financial statements of Larson related to assets and activities which were retained by the seller, and
- adjustments to conform accounting policies.

The unaudited pro forma financial information does not necessarily represent the results that would have occurred had the acquisition occurred on January 1, 2019. In addition, the unaudited pro forma information should not be deemed to be indicative of future results.

(In millions)	2020	2019
Net sales	$ 6,493.2	$ 6,100.4
Net income	$ 592.5	$ 410.8

In 2018 our Plumbing segment entered into a strategic partnership with, and acquired non-controlling equity interests in, Flo Technologies, Inc. (“Flo”), a U.S. manufacturer of comprehensive water monitoring and shut-off systems with leak detection technologies. In January 2020, we entered into an agreement to acquire 100% of the outstanding shares of Flo in a multi-phase transaction. As part of this agreement, we acquired additional shares for $44.2 million in cash, including direct transactions costs, and entered into a forward contract to purchase all remaining shares of Flo at a future date in exchange for an additional $7.9 million in cash, which is included in other assets in our condensed consolidated balance sheet. In April 2020, we acquired additional shares of Flo under a separate option agreement which resulted in a non-cash gain of $4.4 million on the forward contract as included within other income during the twelve months ended December 31, 2020.

As of December 31, 2020, we owned approximately 80% of Flo’s outstanding shares. Starting in the first quarter of 2020, we applied the equity method of accounting to our investment in Flo as the minority stockholders had substantive participating rights which precluded consolidation in our results of operations and statements of financial position and cash flows. The substantive participating rights expired on January 1, 2021, at which time we obtained control of, and began consolidating, Flo in our results. The second phase, scheduled to occur in the first quarter of 2022, will result in the acquisition of the remaining outstanding shares of Flo for a price based on a multiple of Flo’s 2021 sales and adjusted earnings before interest and taxes. Immediately prior to applying the equity method of accounting, we recognized a non-cash gain of $6.6 million within other income during the twelve months ended December 31, 2020 related to the remeasurement of our previously existing investment in Flo.

The carrying value of our investment in Flo was $76.2 million at December 31, 2020 and $25.7 million at December 31, 2019.

In September 2018, we acquired 100% of the membership interests of Fiber Composites LLC (“Fiberon”), a leading U.S. manufacturer of outdoor performance materials used in decking and railing products for a total purchase price of approximately $470.0 million, subject to certain post-closing adjustments. The acquisition of Fiberon provided category expansion and product extension opportunities into the outdoor living space for our Outdoors & Security segment. Fiberon’s net sales and operating income in 2018 were not material to the Company. We financed the transaction using cash on hand and borrowings under our

revolving credit and term loan facilities. The results of operations are included in the Outdoors & Security segment from the date of the acquisition. Goodwill related to this acquisition is deductible for income tax purposes.

5. Goodwill and Identifiable Intangible Assets

We had goodwill of $2,394.8 million and $2,090.2 million as of December 31, 2020 and 2019, respectively. The change in the net carrying amount of goodwill by segment was as follows:

(In millions)	Plumbing	Outdoors & Security	Cabinets	Total Goodwill
Balance at December 31, 2018[(a)]	$ 743.7	$ 412.6	$ 924.0	$ 2,080.3
2019 translation adjustments	3.6	0.5	1.5	5.6
Acquisition-related adjustments	—	4.3	—	4.3
Balance at December 31, 2019[(a)]	$ 747.3	$ 417.4	$ 925.5	$ 2,090.2
2020 translation adjustments	2.8	0.3	0.6	3.7
Acquisition-related adjustments	—	300.9	—	300.9
Balance at December 31, 2020[(a)]	$ 750.1	$ 718.6	$ 926.1	$ 2,394.8

(a) Net of accumulated impairment losses of $399.5 million in the Outdoors & Security segment.

We also had identifiable intangible assets, principally tradenames and customer relationships, of $1,420.3 million and $1,168.9 million as of December 31, 2020 and 2019, respectively. The $295.1 million increase in gross identifiable intangible assets was primarily due to the acquisition of Larson, partially offset by tradename impairment charges of $22.5 million in our Plumbing and Cabinets segments.

The gross carrying value and accumulated amortization by class of intangible assets as of December 31, 2020 and 2019 were as follows:

	As of December 31, 2020			As of December 31, 2019		
(In millions)	Gross Carrying Amounts	Accumulated Amortization	Net Book Value	Gross Carrying Amounts	Accumulated Amortization	Net Book Value
Indefinite-lived tradenames	$ 711.0	$ —	$ 711.0	$ 635.6	$ —	$ 635.6
Amortizable intangible assets						
Tradenames	34.8	(14.0)	20.8	20.6	(12.9)	7.7
Customer and contractual relationships	973.2	(337.3)	635.9	803.9	(299.6)	504.3
Patents/proprietary technology	109.6	(57.0)	52.6	73.4	(52.1)	21.3
Total	1,117.6	(408.3)	709.3	897.9	(364.6)	533.3
Total identifiable intangibles	$ 1,828.6	$ (408.3)	$ 1,420.3	$ 1,533.5	$ (364.6)	$ 1,168.9

Amortizable intangible assets, principally customer relationships, are subject to amortization on a straight-line basis over their estimated useful life, ranging from 2 to 30 years, based on the assessment of a number of factors that may impact useful life which include customer attrition rates and other relevant factors. We expect to record intangible amortization of approximately $60 million in 2021, $59 million in 2022, $58 million in 2023, $57 million in 2024, and $57 million in 2025.

During the second quarter of 2020, extended closures of luxury plumbing showrooms associated with COVID-19 led to lower than expected sales related to an indefinite-lived tradename within the Plumbing segment, which combined with the updated financial outlook compared to previous forecasts and the continued uncertainty of the pandemic on the sales and profitability related to the tradename led us to conclude that it was more likely than not that the indefinite-lived tradename was impaired. Therefore, we performed an interim impairment test as of June 30, 2020, and as a result we recognized a pre-tax impairment charge of $13.0 million related to this tradename. We also performed an evaluation of the useful life of this tradename and determined it was no longer indefinite-lived due to changes in long-term management expectations and future operating plans. As a result, the remaining carrying value of this tradename is being amortized over its estimated useful life of 30 years.

In the first quarter of 2020, we recognized an impairment charge of $9.5 million related to an indefinite-lived tradename in our Cabinets segment. This charge was primarily the result of lower expected sales of custom cabinetry products related to the impact of COVID-19. In the fourth quarter of 2019, we recognized an impairment charge of $12.0 million related to the same indefinite-lived tradename, which was the result of a strategic shift associated with new segment leadership and acceleration of our capacity rebalancing initiatives from custom cabinetry products to value-based cabinetry products as a result of lower than expected sales of custom cabinetry products compared to prior forecasts. As of December 31, 2020, the carrying value of this tradename was $29.1 million.

In the third quarter of 2019, we recognized an impairment charge of $29.5 million related to a second indefinite-lived tradename in our Cabinets segment, which was primarily the result of a continuing shift in consumer demand from semi-custom cabinetry products to value-priced cabinetry products, which led to consecutive downward adjustments of internal sales forecasts and future growth rates associated with the tradename. In the fourth quarter of 2018, we recorded an impairment charge of $35.5 million related to the same indefinite-lived tradename, which was primarily the result of lower than forecasted sales during the fourth quarter of 2018 as well as projected changes in the mix of revenue across our tradenames in future periods, including the impact of more moderate industry growth expectations, which were finalized during our annual planning process conducted during the fourth quarter of 2018. As of December 31, 2020, the carrying value of this tradename was $85.0 million.

During the third quarter of 2018, we recorded a pre-tax impairment charge of $27.1 million related to a third indefinite-lived tradename within the Cabinets segment. This charge was primarily the result of reduced revenue growth expectations associated with Cabinets operations in Canada, including the announced closure of Company-owned retail locations. As of December 31, 2020, the carrying value of this tradename was $39.8 million.

The fair values of the impaired tradenames were measured using the relief-from-royalty approach, which estimates the present value of royalty income that could be hypothetically earned by licensing the tradename to a third party over its remaining useful life. Some of the more significant assumptions inherent in estimating the fair values include forecasted revenue growth rates, assumed royalty rates, and market-participant discount rates that reflect the level of risk associated with the tradenames' future revenues and profitability. We selected the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated growth rates, and management plans. These assumptions represent level 3 inputs of the fair value hierarchy (refer to Note 9).

The significant assumptions used to estimate the fair values of the tradenames impaired during the years ended December 31, 2020 and 2019 were as follows:

	2020			2019		
Unobservable Input	Minimum	Maximum	Weighted Average(a)	Minimum	Maximum	Weighted Average(a)
Discount rates	14.8%	15.8%	15.1%	13.0%	13.5%	13.3%
Royalty rates(b)	4.0%	5.0%	4.3%	3.0%	4.0%	3.3%
Long-term revenue growth rates(c)	1.0%	3.0%	1.6%	3.0%	3.0%	3.0%

(a) *Weighted by relative fair value of the impaired tradenames.*
(b) *Represents estimated percentage of sales a market-participant would pay to license the impaired tradenames.*
(c) *Selected long-term revenue growth rate within 10-year projection period of the impaired tradenames.*

As of December 31, 2020, the fair value of four Cabinets' tradenames exceeded their carrying values of $180.6 million by less than 30%. A reduction in the estimated fair value of the tradenames in our Cabinets segment could trigger additional impairment charges in future periods. Events or circumstances that could have a potential negative effect on the estimated fair value of our reporting units and indefinite-lived tradenames include: lower than forecasted revenues, more severe impacts of the COVID-19 pandemic than currently expected, actual new construction and repair and remodel growth rates that fall below our assumptions, actions of key customers, increases in discount rates, continued economic uncertainty, higher levels of unemployment, weak consumer confidence, lower levels of discretionary consumer spending, a decrease in royalty rates and a decline in the trading price of our common stock. We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill and indefinite-lived assets.

6. Leases

We have operating and finance leases for buildings and certain machinery and equipment. Operating leases are included in operating lease assets, other current liabilities, and operating lease liabilities in our consolidated balance sheets. Amounts recognized for finance leases as of and for the years ended December 31, 2020 and 2019 were immaterial.

Operating lease expense recognized in the consolidated statement of comprehensive income for the years ended December 31, 2020 and 2019 were $53.9 million and $51.0 million, respectively, including approximately $9.3 million and $8.2 million of short-term and variable lease costs for the years ended December 31, 2020 and 2019, respectively. Operating lease expense (reduced by immaterial amounts from subleases) was $48.4 million for the year ended December 31, 2018. The 2020 and 2019

expenses were determined in accordance with ASC 842, whereas 2018 expenses were determined in accordance with the previous leasing guidance (ASC 840).

Other information related to leases was as follows:

(In millions, except lease term and discount rate)	December 31, 2020	December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 43.5	$ 41.3
Right-of-use assets obtained in exchange for operating lease obligations	$ 40.5	$ 24.5
Weighted average remaining lease term - operating leases	6.4 years	7.1 years
Weighted average discount rate - operating leases	3.8%	4.2%

Total lease payments under non-cancellable operating leases as of December 31, 2020 were as follows:

(In millions)	
Year Ending December 31,	
2021	$ 42.8
2022	36.2
2023	31.3
2024	23.8
2025	16.7
Thereafter	52.7
Total lease payments	203.5
Less imputed interest	(24.5)
Total	$ 179.0
Reported as of December 31, 2020	
Other current liabilities	$ 38.5
Operating lease liabilities	140.5
Total	$ 179.0

7. External Debt and Financing Arrangements

Unsecured Senior Notes

At December 31, 2020, the Company had aggregate outstanding notes in the principal amount of $1.8 billion, with varying maturities (the "Notes"). The Notes are unsecured senior obligations of the Company. The following table provides a summary of the Company's outstanding Notes, including the carrying value of the Notes, net of underwriting commissions, price discounts, and debt issuance costs as of December 31, 2020 and December 31, 2019:

(in millions)				Net Carrying Value	
Coupon Rate	Principal Amount	Issuance Date	Maturity Date	December 31, 2020	December 31, 2019
3.000% Senior Notes	$ 400.0	June 2015	June 2020	$ -	$ 399.7
4.000% Senior Notes	500.0	June 2015	June 2025	496.6	495.8
4.000% Senior Notes (the "2018 Notes")	600.0	September 2018	September 2023	597.1	596.1
3.250% Senior Notes (the "2019 Notes")	700.0	September 2019	September 2029	693.5	692.7
Total Senior Notes				$ 1,787.2	$ 2,184.3

During June 2020, we repaid all outstanding 3.000% Senior Notes issued in June 2015 at their maturity date using borrowings under our 2019 Revolving Credit Agreement (as defined below). In September 2019, we issued $700 million of 3.25% Senior Notes due 2029 ("2019 Notes") in a registered public offering. The Company used the proceeds from the 2019 Notes offering to repay in full the Company's $350 million term loan and to pay down outstanding balances under our revolving credit facility.

In September 2018, we issued $600 million of unsecured senior notes ("2018 Notes") in a registered public offering. The 2018 Notes are due in 2023 with a coupon rate of 4%. We used the proceeds from the 2018 Notes offering to pay down our revolving credit facility.

Notes payments due during the next five years as of December 31, 2020 are zero in 2021 through 2022, $600 million in 2023, zero in 2024 and $500 million in 2025.

Credit Facilities

In April 2020, the Company entered into a supplemental 364-day, $400 million revolving credit facility (the "2020 Revolving Credit Agreement"), and borrowings thereunder will be used for general corporate purposes.

In September 2019, the Company entered into a second amended and restated $1.25 billion revolving credit facility (the "2019 Revolving Credit Agreement"), and borrowings thereunder will be used for general corporate purposes. The terms and conditions of the 2019 Revolving Credit Agreement, including the total commitment amount, essentially remained the same as under the previous credit agreement, except that the maturity date was extended to September 2024. Borrowings amounting to $165.0 million were rolled-over from the prior revolving credit facility into the 2019 Revolving Credit Agreement. Interest rates under the 2019 Revolving Credit Agreement are variable based on LIBOR at the time of the borrowing and the Company's long-term credit rating and can range from LIBOR + 0.91% to LIBOR + 1.4%. The amendment also includes a covenant under which the Company is required to maintain a minimum ratio of consolidated EBITDA to consolidated interest expense of 3.0 to 1.0. Adjusted EBITDA is defined as consolidated net income before interest expense, income taxes, depreciation, amortization of intangible assets, losses from asset impairments, and certain other one-time adjustments. In addition, the amendment includes a covenant under which the Company's ratio of consolidated debt minus certain cash and cash equivalents to consolidated EBITDA generally may not exceed 3.5 to 1.0. This amendment and restatement of the credit agreement was a non-cash transaction for the Company. On December 31, 2020 and December 31, 2019, our outstanding borrowings under these credit facilities were $785.0 million and zero, respectively, which is included in Long-term debt in the condensed consolidated balance sheets. As of December 31, 2020, we were in compliance with all covenants under this facility.

We currently have uncommitted bank lines of credit in China, which provide for unsecured borrowings for working capital of up to $17.5 million in aggregate as of December 31, 2020 and December 31, 2019, of which there were no outstanding balances as of December 31, 2020 and 2019. The weighted-average interest rates on these borrowings were zero in both 2020 and 2019.

The components of long-term debt were as follows:

(In millions)	2020	2019
Notes	$ 1,787.2	$ 2,184.3
$1,250 million revolving credit agreement due September 2024	785.0	—
Total debt	2,572.2	2,184.3
Less: current portion	—	399.7
Total long-term debt	$ 2,572.2	$ 1,784.6

In our debt agreements, there are normal and customary events of default which would permit the lenders to accelerate the debt if not cured within applicable grace periods, such as failure to pay principal or interest when due or a change in control of the Company. There were no events of default as of December 31, 2020.

8. Financial Instruments

We do not enter into financial instruments for trading or speculative purposes. We principally use financial instruments to reduce the impact of changes in foreign currency exchange rates and commodities used as raw materials in our products. The principal derivative financial instruments we enter into on a routine basis are foreign exchange contracts. Derivative financial instruments are recorded at fair value. The counterparties to derivative contracts are major financial institutions. We are subject to credit risk on these contracts equal to the fair value of these instruments. Management currently believes that the risk of incurring material losses is unlikely and that the losses, if any, would be immaterial to the Company.

Raw materials used by the Company are subject to price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. As a result, from time to time, we enter into commodity swaps to manage the price risk associated with forecasted purchases of materials used in our operations. We account for these commodity derivatives as economic hedges or cash flow hedges. Changes in the fair value of economic hedges are recorded directly into current period earnings. The gross notional amount of all commodity derivatives outstanding at December 31, 2020 was $9.8 million, representing a net settlement asset of $1.9 million. There were no material commodity derivative contracts outstanding for the year ended December 31, 2019.

We may enter into foreign currency forward contracts to protect against foreign exchange risks associated with certain existing assets and liabilities, forecasted future cash flows, and net investments in foreign subsidiaries. Foreign exchange contracts related to forecasted future cash flows correspond to the periods of the forecasted transactions, which generally do not exceed 12 to 15 months subsequent to the latest balance sheet date.

For derivative instruments that are designated as fair value hedges, the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item, are recognized on the same line of the statement of income. The changes in the fair value of cash flow hedges are reported in OCI and are recognized in the statement of income when the hedged item affects earnings. The changes in fair value for net investment hedges are recognized in the statement of income when realized upon sale or upon complete or substantially complete liquidation of the investment in the foreign entity. In addition, changes in the fair value of all economic hedge transactions are immediately recognized in current period earnings. Our primary foreign currency hedge contracts pertain to the Canadian dollar, the British pound, the Mexican peso and the Chinese yuan. The gross U.S. dollar equivalent notional amount of all foreign currency derivative hedges outstanding at December 31, 2020 was $415.2 million, representing a net settlement liability of $2.8 million. Based on foreign exchange rates as of December 31, 2020, we estimate that $2.0 million of net derivative gains included in accumulated other comprehensive income as of December 31, 2020 will be reclassified to earnings within the next twelve months.

The fair values of foreign exchange and commodity derivative instruments on the consolidated balance sheets as of December 31, 2020 and 2019 were:

		Fair Value	
(In millions)	**Location**	***2020***	**2019**
Assets:			
Foreign exchange contracts	Other current assets	$ 3.7	$ 2.9
Commodity contracts	Other current assets	1.9	0.1
	Total assets	$ 5.6	$ 3.0
Liabilities:			
Foreign exchange contracts	Other current liabilities	$ 6.5	$ 2.2
Net investment hedges	Other current liabilities	—	0.3
	Total liabilities	$ 6.5	$ 2.5

The effects of derivative financial instruments on the consolidated statements of income in 2020, 2019 and 2018 were:

(In millions)	Classification and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships		
	2020		
	Cost of products sold	Interest expense	Other income, net
Total amounts per Consolidated Statements of Income	$ 3,925.9	$ 83.9	$ 13.3
The effects of fair value and cash flow hedging:			
Gain (loss) on fair value hedging relationships			
Foreign exchange contracts:			
Hedged items			2.9
Derivative designated as hedging instruments			(1.8)
Gain (loss) on cash flow hedging relationships			
Foreign exchange contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	(3.0)		
Commodity contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	—		
Interest rate contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income		0.6	

(In millions)	Classification and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships		
	2019		
	Cost of products sold	Interest expense	Other expense, net
Total amounts per Consolidated Statements of Income	$ 3,712.2	$ 94.2	$ 29.0
The effects of fair value and cash flow hedging:			
Gain (loss) on fair value hedging relationships			
Foreign exchange contracts:			
Hedged items			4.0
Derivative designated as hedging instruments			(3.0)
Gain (loss) on cash flow hedging relationships			
Foreign exchange contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	4.1		
Commodity contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	(0.1)		
Interest rate contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income		0.4	

(In millions)	Classification and Amount of Gain (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships		
	2018		
	Cost of products sold	Interest expense	Other income, net
Total amounts per Consolidated Statements of Income	$ 3,525.7	$ 74.5	$ 16.3
The effects of fair value and cash flow hedging:			
Gain (loss) on fair value hedging relationships			
Foreign exchange contracts:			
Hedged items			(3.4)
Derivative designated as hedging instruments			5.0
Gain (loss) on cash flow hedging relationships			
Foreign exchange contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	2.2		
Commodity contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income	(0.2)		
Interest rate contracts:			
Amount of gain or (loss) reclassified from accumulated other comprehensive (loss) income into income		0.1	

The cash flow hedges recognized in other comprehensive income were net (losses) gains of $(3.2) million, $4.8 million and $10.1 million in 2020, 2019 and 2018 respectively.

9. Fair Value Measurements

ASC requirements for Fair Value Measurements and Disclosures establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs, the highest priority, are quoted prices in active markets for identical assets or liabilities. Level 2 inputs reflect other than quoted prices included in level 1 that are either observable directly or through corroboration with observable market data. Level 3 inputs are unobservable inputs due to little or no market activity for the asset or liability, such as internally-developed valuation models. We do not have any assets or liabilities measured at fair value on a recurring basis that are level 3, except for pension assets discussed in Note 14.

The carrying value and fair value of debt as of December 31, 2020 and 2019 were as follows:

(In millions)	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Notes, net of underwriting commissions, price discounts and debt issuance costs	$ 1,787.2	$ 1,994.9	$ 2,184.3	$ 2,271.4
Revolving credit facility	785.0	785.0	—	—

The estimated fair value of our revolving credit facility is determined primarily using broker quotes, which are level 2 inputs. The estimated fair value of our Notes is determined by using quoted market prices of our debt securities, which are level 1 inputs.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019 were as follows:

(In millions)	Fair Value	
	2020	2019
Assets:		
Derivative asset financial instruments (level 2)	$ 5.6	$ 3.0
Deferred compensation program assets (level 2)	16.3	12.1
Total assets	$ 21.9	$ 15.1
Liabilities:		
Derivative liability financial instruments (level 2)	$ 6.5	$ 2.5

The principal derivative financial instruments we enter into on a routine basis are foreign exchange contracts. In addition, from time to time, we enter into commodity swaps. Derivative financial instruments are recorded at fair value.

10. Capital Stock

The Company has 750 million authorized shares of common stock, par value $0.01 per share and 60 million authorized shares of preferred stock, par value $0.01 per share. The number of shares of common stock and treasury stock and the share activity for 2020 and 2019 were as follows:

	Common Shares		Treasury Shares	
	2020	2019	*2020*	2019
Balance at the beginning of the year	139,555,487	140,498,981	42,335,315	40,110,623
Stock plan shares issued	2,175,510	1,281,198	—	—
Shares surrendered by optionees	(159,089)	(185,141)	159,089	185,141
Common stock repurchases	(2,911,754)	(2,039,551)	2,911,754	2,039,551
Balance at the end of the year	138,660,154	139,555,487	45,406,158	42,335,315

At December 31, 2020, no shares of our preferred stock were outstanding. Our Board of Directors has the authority, without action by the Company's stockholders, to designate and issue our preferred stock in one or more series and to designate the rights, preferences, limitations and privileges of each series of preferred stock, which may be greater than the rights of the Company's common stock.

In 2020, we repurchased 2.9 million shares of outstanding common stock under the Company's share repurchase program for $187.6 million. As of December 31, 2020, the Company's total remaining share repurchase authorization under the remaining program was approximately $462 million. The share repurchase program does not obligate the Company to repurchase any specific dollar amount or number of shares and may be suspended or discontinued at any time.

In December 2020, our Board of Directors declared a cash dividend of $0.26 per share of common stock, which represents an increase of 8% from the previous dividend.

11. Accumulated Other Comprehensive (Loss) Income

The reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2020 and 2019 were as follows:

(In millions) Details about Accumulated Other Comprehensive Loss Components	2020	2019	Affected Line Item in the Consolidated Statements of Income
Gains (losses) on cash flow hedges			
Foreign exchange contracts	$ (3.0)	$ 4.1	Cost of products sold
Interest rate contracts	0.6	0.4	Interest expense
Commodity contracts	—	(0.1)	Cost of products sold
	(2.4)	4.4	Total before tax
	—	(0.6)	Tax expense
	$ (2.4)	$ 3.8	Net of tax
Defined benefit plan items			
Recognition of actuarial losses	(3.2)	(34.1)	(a)
	0.4	8.3	Tax benefit
	$ (2.8)	$ (25.8)	Net of tax
Total reclassifications for the period	$ (5.2)	$ (22.0)	Net of tax

(a) *These accumulated other comprehensive (loss) income components are included in the computation of net periodic benefit cost. Refer to Note 14, "Defined Benefit Plans," for additional information.*

Total accumulated other comprehensive (loss) income consists of net income and other changes in business equity from transactions and other events from sources other than stockholders. It includes currency translation gains and losses, unrealized gains and losses from derivative instruments designated as cash flow hedges, and defined benefit plan adjustments. The after-tax components of and changes in accumulated other comprehensive (loss) income were as follows:

(In millions)	Foreign Currency Adjustments	Derivative Hedging Gain (Loss)	Defined Benefit Plan Adjustments	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2017	$ 5.8	$ (2.4)	$ (42.6)	$ (39.2)
Amounts classified into accumulated other comprehensive (loss) income	(31.1)	8.3	(6.3)	(29.1)
Amounts reclassified into earnings	—	(1.7)	3.0	1.3
Net current period other comprehensive (loss) income	(31.1)	6.6	(3.3)	(27.8)
Balance at December 31, 2018	$ (25.3)	$ 4.2	$ (45.9)	$ (67.0)
Amounts classified into accumulated other comprehensive (loss) income	13.8	5.1	(37.9)	(19.0)
Amounts reclassified into earnings	—	(3.8)	25.8	22.0
Adoption of ASU 2018-02			(8.6)	(8.6)
Net current period other comprehensive (loss) income	13.8	1.3	(20.7)	(5.6)
Balance at December 31, 2019	$ (11.5)	$ 5.5	$ (66.6)	$ (72.6)
Amounts classified into accumulated other comprehensive (loss) income	18.7	(3.7)	(2.7)	12.3
Amounts reclassified into earnings	—	2.4	2.8	5.2
Net current period other comprehensive (loss) income	18.7	(1.3)	0.1	17.5
Balance at December 31, 2020	$ 7.2	$ 4.2	$ (66.5)	$ (55.1)

12. Stock-Based Compensation

As of December 31, 2020, we had awards outstanding under two Long-Term Incentive Plans, the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan (the “Plan”) and the 2011 Long-Term Incentive Plan (the “2011 Plan”, and together with the Plan - the “Plans”). No new stock-based awards can be made under the 2011 Plan, but there are outstanding stock options under the 2011 Plan that continue to be exercisable. Our stockholders approved the Plan in 2013, which provides for the granting of stock options, performance share awards, restricted stock units, and other equity-based awards, to employees, directors and consultants. As of December 31, 2020, approximately 2.7 million shares of common stock remained authorized for issuance under the Plan. In addition, shares of common stock that were granted and subsequently expired, terminated, cancelled or forfeited, or were used to satisfy the required withholding taxes with respect to existing awards under the Plans may be recycled back into the total numbers of shares available for issuance under the Plan. Upon the exercise or payment of stock-based awards, shares of common stock are issued from authorized common shares.

Stock-based compensation expense was as follows:

(In millions)	*2020*	2019	2018
Restricted stock units	$ 21.5	$ 19.4	$ 21.3
Stock option awards	5.3	7.0	8.6
Performance awards	22.6	4.2	6.3
Director awards	0.9	1.2	1.0
Total pre-tax expense	50.3	31.8	37.2
Tax benefit	8.7	6.0	6.2
Total after tax expense	$ 41.6	$ 25.8	$ 31.0

Included in compensation costs are cash-settled restricted stock units of $2.3 million, $1.4 million and $0.9 million that are classified as a liability as of December 31, 2020, 2019 and 2018, respectively. Compensation costs that were capitalized in inventory were not material.

Restricted Stock Units

Restricted stock units (“RSUs”) have been granted to officers and certain employees of the Company and represent the right to receive shares of Company common stock subject to continued employment through each vesting date. RSUs generally vest ratably over a three-year period. In addition, certain employees can elect to defer receipt of a portion of their RSU awards upon vesting. Compensation cost is recognized over the service period. We calculate the fair value of each RSU granted by using the average of the high and low share prices on the date of grant.

A summary of activity with respect to RSUs outstanding under the Plans for the year ended December 31, 2020 was as follows:

	Number of Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2019	756,482	$ 53.89
Granted	371,513	70.66
Vested	(363,146)	56.09
Forfeited	(56,511)	53.89
Non-vested at December 31, 2020	708,338	$ 61.48

The remaining unrecognized pre-tax compensation cost related to RSUs at December 31, 2020 was approximately $23.1 million, and the weighted-average period of time over which this cost will be recognized is 1.9 years. The fair value of RSUs that vested during 2020, 2019 and 2018 was $24.0 million, $15.2 million and $22.2 million, respectively.

Stock Option Awards

Stock options were granted to officers and certain employees of the Company and represent the right to purchase shares of Company common stock subject to continued employment through each vesting date. Stock options granted under the Plans generally vest over a three-year period and generally have a maturity of ten years from the grant date.

All stock-based compensation to employees is required to be measured at fair value and expensed over the requisite service period. We recognize compensation expense on awards on a straight-line basis over the requisite service period for the entire award.

The fair value of Fortune Brands options was estimated at the date of grant using a Black-Scholes option pricing model with the assumptions shown in the following table:

	2020	2019	2018
Current expected dividend yield	1.4%	1.5%	1.3%
Expected volatility	25.9%	27.0%	24.0%
Risk-free interest rate	1.2%	2.5%	2.6%
Expected term	5.3 years	5.0 years	5.0 years

Beginning in 2020, the determination of expected volatility is based on the volatility of Fortune Brands common stock. The determination of expected volatility in prior years is based on a blended peer group volatility for companies in similar industries, at a similar stage of life and with similar market capitalization. The risk-free interest rate is based on U.S. government issues with a remaining term equal to the expected life of the stock options. The expected term is the period over which our employees are expected to hold their options. The expected term was determined based on the historical employee exercise behavior and the contractual term of the options. The dividend yield is based on the Company's estimated dividend over the expected term. The weighted-average grant date fair value of stock options granted under the Plans during the years ended December 31, 2020, 2019 and 2018 was $15.21, $11.36 and $14.14, respectively.

A summary of Fortune Brands stock option activity related to Fortune Brands and former employees of Fortune Brands, Inc., the Company from which we spun off from in 2011, for the year ended December 31, 2020 was as follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2019	3,825,216	$ 45.27
Granted	530,932	70.56
Exercised	(1,734,610)	37.44
Expired/forfeited	(82,509)	56.40
Outstanding at December 31, 2020	2,539,029	$ 55.54

Options outstanding and exercisable at December 31, 2020 were as follows:

	Options Outstanding (a)			Options Exercisable (b)	
Range Of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
13.00 to 20.00	64,274	0.75	17.21	64,274	17.21
20.01 to 83.07	2,474,755	6.86	56.53	1,589,176	52.94
	2,539,029	6.71	$ 55.54	1,653,450	$ 51.56

(a) At December 31, 2020, the aggregate intrinsic value of options outstanding was $76.6 million.
(b) At December 31, 2020 the weighted-average remaining contractual life of options exercisable was 5.7 years and the aggregate intrinsic value of options exercisable was $56.5 million.

The remaining unrecognized compensation cost related to unvested awards at December 31, 2020 was $6.7 million, and the weighted-average period of time over which this cost will be recognized is 2.0 years. The fair value of options that vested during the years ended December 31, 2020, 2019 and 2018 was $9.4 million, $7.1 million and $6.7 million, respectively. The intrinsic value of Fortune Brands stock options exercised in the years ended December 31, 2020, 2019 and 2018 was $64.0 million, $26.0 million and $8.7 million, respectively.

Performance Share Awards

Performance share awards were granted to officers and certain employees of the Company and represent the right to earn shares of Company common stock based on the achievement of company-wide non-GAAP performance conditions, including average return on net tangible assets and cumulative EBITDA during the three-year performance period. Compensation cost is amortized into expense over the performance period, which is generally three years, and is based on the probability of meeting performance targets. The fair value of each performance share award is based on the average of the high and low stock price on the date of grant.

The following table summarizes information about performance share awards as of December 31, 2020, as well as activity during the year then ended. The number of performance share awards granted are shown below at the target award amounts:

	Number of Performance Share Awards	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2019	555,657	$ 53.71
Granted	192,958	68.15
Vested	(60,048)	58.08
Forfeited	(112,108)	56.32
Non-vested at December 31, 2020	576,459	$ 57.54

The remaining unrecognized pre-tax compensation cost related to performance share awards at December 31, 2020 was approximately $19.9 million, and the weighted-average period of time over which this cost will be recognized is 1.7 years. The fair value of performance share awards that vested during 2020 was $4.3 million (60,048 shares).

Director Awards

Stock awards are used as part of the compensation provided to outside directors under the Plan. Awards are issued annually in the second quarter. In addition, outside directors can elect to have director cash compensation paid in stock or can elect to defer payment of stock. Compensation cost is expensed at the time of an award based on the fair value of a share at the date of the award. In 2020, 2019 and 2018, we awarded 20,181, 21,746 and 19,109 shares of Company common stock to outside directors with a weighted-average fair value on the date of the award of $46.82, $54.48 and $54.93, respectively.

13. Revenue

Our principal performance obligations are the sale of faucets and accessories, fiberglass and steel entry-door systems and locks, safes, safety, security devices and decking, and kitchen and bath cabinets (collectively, “goods” or “products”). We recognize revenue for the sale of goods based on our assessment of when control transfers to our customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods to our customers. Payment terms on our product sales normally range from 30 to 90 days. Taxes assessed by a governmental authority that we collect are excluded from revenue. The expected costs associated with our contractual warranties will continue to be recognized as expense when the products are sold. See Note 17, “Product Warranties,” for further discussion.

We record estimates to reduce revenue for customer programs and incentives, which are considered variable consideration, and include price discounts, volume-based incentives, promotions and cooperative advertising when revenue is recognized in order to determine the amount of consideration the Company will ultimately be entitled to receive. These estimates are based on historical and projected experience for each type of customer. In addition, for certain customer program incentives, we receive an identifiable benefit (goods or services) in exchange for the consideration given and record the associated expenditure in selling, general and administrative expenses.

We account for shipping and handling costs that occur after the customer has obtained control of a product as a fulfillment activity (i.e., as an expense) rather than as a promised service (i.e., as a revenue element). These costs are classified within selling, general and administrative expenses.

Settlement of our outstanding accounts receivable balances is normally within 30 to 90 days of the original sale transaction date. Obligations arise for us from customer rights to return our goods for any reason, including among others, product obsolescence, stock rotations, trade-in agreements for newer products and upon termination of a customer contract. We estimate future product returns at the time of sale based on historical experience and record a corresponding refund obligation, which amounted to $30.5 million and $16.9 million as of December 31, 2020 and 2019, respectively. Refund obligations are classified within other current liabilities in our consolidated balance sheet. Return assets related to the refund obligation are measured at the carrying amount of the goods at the time of sale, less any expected costs to recover the goods and any expected reduction in value. Return assets are classified within other current assets and were approximately $2.9 million and $2.6 million as of December 31, 2020 and 2019, respectively.

The Company disaggregates revenue from contracts with customers into (i) major sales distribution channels in the U.S. and (ii) total sales to customers outside the U.S. market as these categories depict the nature, amount, timing and uncertainty of revenues and cash flows that are affected by economic factors. The following table disaggregates our consolidated revenue by major sales distribution channels for the years ended December 31, 2020, 2019 and 2018.

(In millions)	December 31, 2020	December 31, 2019	December 31, 2018
Wholesalers[(a)]	$ 2,720.6	$ 2,682.8	$ 2,607.3
Home Center retailers[(b)]	1,808.1	1,606.7	1,452.3
Other retailers[(c)]	345.6	304.8	311.6
Builder direct	220.0	229.4	235.4
U.S. net sales	5,094.3	4,823.7	4,606.6
International[(d)]	996.0	940.9	878.5
Net sales	$ 6,090.3	$ 5,764.6	$ 5,485.1

(a) Represents sales to customers whose business is oriented towards builders, professional trades and home remodelers, inclusive of sales through our customers' respective internet website portals.
(b) Represents sales to the three largest "Do-It-Yourself" retailers; The Home Depot, Inc., Lowes Companies, Inc. and Menards, Inc., inclusive of sales through their respective internet website portals.
(c) Represents sales principally to our mass merchant and standalone independent e-commerce customers.
(d) Represents sales in markets outside the United States, principally in China, Canada, Europe and Mexico.

Practical Expedients

Incremental costs of obtaining a contract include only those costs the Company incurs that would not have been incurred if the contract had not been obtained. These costs are required to be recognized as assets and amortized over the period that the related goods or services transfer to the customer. As a practical expedient, we expense as incurred costs to obtain a contract when the expected amortization period is one year or less. These costs are recorded within selling, general and administrative expenses.

14. Defined Benefit Plans

We have a number of pension plans in the United States, covering many of the Company's employees; however, the majority of these plans have been frozen to new participants and benefit accruals were frozen for active participants on December 31, 2016. The plans provide for payment of retirement benefits, mainly commencing between the ages of 55 and 65. After meeting certain qualifications, an employee acquires a vested right to future benefits. The benefits payable under the plans are generally determined on the basis of an employee's length of service and/or earnings. Employer contributions to the plans are made, as necessary, to ensure legal funding requirements are satisfied. Also, from time to time, we may make contributions in excess of the legal funding requirements. Service cost for 2020 relates to benefit accruals for an hourly Union group within the defined benefit plan for our Outdoors & Security segment. All other benefit accruals under our defined benefit pension plans were frozen as of, or prior to, December 31, 2016.

Net actuarial gains and losses occur when actual experience differs from any of the assumptions used to value defined benefit plans or when assumptions change as they may each year. The primary factors contributing to actuarial gains and losses are changes in the discount rate used to value obligations as of the measurement date and the differences between expected and actual returns on pension plan assets.

In addition, the Company provides postretirement health care and life insurance benefits to certain retirees.

(In millions)	Pension Benefits		Postretirement Benefits	
Obligations and Funded Status at December 31	*2020*	2019	*2020*	2019
Change in the Projected Benefit Obligation (PBO):				
Projected benefit obligation at beginning of year	$ 877.1	$ 763.2	$ 3.6	$ 1.4
Projected benefit obligation acquired(a)	—	—	9.6	—
Service cost	0.4	0.4	0.4	0.2
Interest cost	28.3	32.9	0.2	0.2
Plan amendments	—	—	—	1.6
Actuarial loss	70.6	121.6	0.2	1.0
Benefits paid	(42.9)	(41.0)	(0.6)	(0.7)
Curtailment gain	—	—	—	(0.1)
Projected benefit obligation at end of year	$ 933.5	$ 877.1	$ 13.4	$ 3.6
Accumulated benefit obligation at end of year (excludes the impact of future compensation increases)	$ 933.5	$ 877.1	$ —	$ —
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$ 677.2	$ 599.6	$ —	$ —
Actual return on plan assets	101.3	106.8	—	—
Employer contributions	49.3	11.8	0.6	0.7
Benefits paid	(42.9)	(41.0)	(0.6)	(0.7)
Fair value of plan assets at end of year	$ 784.9	$ 677.2	$ —	$ —
Funded status (Fair value of plan assets less PBO)	$ (148.6)	$ (199.9)	$ (13.4)	$ (3.6)

(a) *Related to the Larson acquisition discussed in Note 4.*

The actuarial loss is primarily a result of changes in discount rates from year to year.

The accumulated benefit obligation exceeds the fair value of assets for all pension plans. Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Postretirement Benefits	
(In millions)	*2020*	2019	*2020*	2019
Current benefit payment liability	$ (1.4)	$ (1.4)	$ (1.1)	$ (0.7)
Accrued benefit liability	(147.2)	(198.5)	(12.3)	(2.9)
Net amount recognized	$ (148.6)	$ (199.9)	$ (13.4)	$ (3.6)

As of December 31, 2020, we adopted the new Society of Actuaries MP-2020 mortality tables resulting in an immaterial decrease in plan benefit obligation and ongoing expenses. As of December 31, 2019, we adopted the new Society of Actuaries MP-2019 mortality tables, resulting in an immaterial increase in plan benefit obligation, and deferred actuarial losses in accumulated other comprehensive income.

The amounts in accumulated other comprehensive loss on the consolidated balance sheets that have not yet been recognized as components of net periodic benefit cost were as follows:

(In millions)	Pension Benefits	Postretirement Benefits
Net actuarial loss (gain) at December 31, 2018	$ 71.8	$ (0.3)
Recognition of actuarial loss	(34.1)	(0.6)
Current year actuarial loss	50.1	0.6
Net actuarial loss due to curtailment	(0.1)	—
Net actuarial loss (gain) at December 31, 2019	$ 87.7	$ (0.3)
Recognition of actuarial loss	(2.7)	(0.1)
Current year actuarial loss	2.1	1.0
Net actuarial loss due to curtailment	(0.6)	—
Net actuarial loss at December 31, 2020	$ 86.5	$ 0.6

Components of net periodic benefit cost were as follows:

Components of Net Periodic Benefit (Income) Cost	Pension Benefits			Postretirement Benefits		
(In millions)	*2020*	2019	2018	*2020*	2019	2018
Service cost	$ 0.4	$ 0.4	$ 0.5	$ 0.4	$ 0.2	$ —
Interest cost	28.3	32.9	30.7	0.2	0.2	—
Expected return on plan assets	(32.8)	(35.2)	(41.0)	—	—	—
Recognition of actuarial losses (gains)	2.7	34.1	3.9	0.1	0.6	(0.1)
Settlement/Curtailment losses (gains)	0.6	0.1	—	—	(0.1)	—
Amortization of prior service credits	—	—	—	—	0.2	—
Net periodic benefit cost (income)	$ (0.8)	$ 32.3	$ (5.9)	$ 0.7	$ 1.1	$ (0.1)

Assumptions	Pension Benefits			Postretirement Benefits		
	2020	2019	2018	*2020*	2019	2018
Weighted-Average Assumptions Used to Determine Benefit Obligations at December 31:						
Discount rate	2.6%	3.3%	4.4%	5.9%	6.4%	4.2%
Weighted-Average Assumptions Used to Determine Net Cost for Years Ended December 31:						
Discount rate	3.3%	4.4%	3.8%	6.4%	4.2%	3.4%
Expected long-term rate of return on plan assets	4.5%	4.9%	6.0%	—	—	—

	Postretirement Benefits	
	2020	2019
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations and Net Cost at December 31:		
Health care cost trend rate assumed for next year	6.4/7.4 % (a)	6.7/7.8% (a)
Rate that the cost trend rate is assumed to decline (the ultimate trend rate)	4.5 %	4.5%
Year that the rate reaches the ultimate trend rate	2027	2027

(a) The pre-65 initial health care cost trend rate is shown first / followed by the post-65 rate.

Plan Assets

The fair value of the pension assets by major category of plan assets as of December 31, 2020 and 2019 were as follows:

(In millions)	Total as of balance sheet date	
	2020	2019
Group annuity/insurance contracts (level 3)	$ 24.8	$ 24.2
Collective trusts:		
Cash and cash equivalents	16.0	7.8
Equity	287.6	245.3
Fixed income	410.0	355.0
Multi-strategy hedge funds	24.6	23.2
Real estate	21.9	21.7
Total	$ 784.9	$ 677.2

A reconciliation of Level 3 measurements was as follows:

(In millions)	Group annuity/ insurance contracts	
	2020	2019
January 1	$ 24.2	$ 23.6
Actual return on assets related to assets still held	0.6	0.6
December 31	$ 24.8	$ 24.2

Our defined benefit plans Master Trust own a variety of investment assets. All of these investment assets, except for group annuity/insurance contracts are measured using net asset value per share as a practical expedient per ASC 820. Following the retrospective adoption of ASU 2015-07 (Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share) we excluded all investments measured using net asset value per share in the amount of $760.1 million and $653.0 million as of December 31, 2020 and 2019, respectively, from the tabular fair value hierarchy disclosure.

The terms and conditions for redemptions vary for each class of the investment assets valued at net asset value per share as a practical expedient. Real estate assets may be redeemed quarterly with a 45 day redemption notice period. Investment assets in multi-strategy hedge funds may be redeemed semi-annually with a 95 day redemption notice period. Equity, fixed income and cash and cash equivalents have no specified redemption frequency and notice period and may be redeemed daily. As of December 31, 2020 we do not have an intent to sell or otherwise dispose of these investment assets at prices different than the net asset value per share.

Our investment strategy is to optimize investment returns through a diversified portfolio of investments, taking into consideration underlying plan liabilities and asset volatility. The defined benefit asset allocation policy of the plans allow for an equity allocation of 0% to 75%, a fixed income allocation of 25% to 100%, a cash allocation of up to 25% and other investments of up to 20%. Asset allocations are based on the underlying liability structure. All retirement asset allocations are reviewed periodically to ensure the allocation meets the needs of the liability structure.

Our 2021 expected blended long-term rate of return on plan assets of 4.5% was determined based on the nature of the plans' investments, our current asset allocation and projected long-term rates of return from pension investment consultants.

Estimated Future Retirement Benefit Payments

The following retirement benefit payments are expected to be paid:

(In millions)	Pension Benefits	Postretirement Benefits
2021	$ 42.0	$ 1.0
2022	43.1	0.9
2023	44.2	0.9
2024	45.3	1.0
2025	46.3	1.1
Years 2026-2030	238.7	5.7

Estimated future retirement benefit payments above are estimates and could change significantly based on differences between actuarial assumptions and actual events and decisions related to lump sum distribution options that are available to participants in certain plans.

Defined Contribution Plan Contributions

We sponsor a number of defined contribution plans. Contributions are determined under various formulas. Cash contributions by the Company related to these plans amounted to $36.7 million, $36.3 million and $29.5 million in 2020, 2019 and 2018, respectively.

15. Income Taxes

The components of income from continuing operations before income taxes and noncontrolling interests were as follows:

(In millions)	2020	2019	2018
Domestic operations	$ 576.8	$ 438.2	$ 456.7
Foreign operations	154.0	137.1	80.3
Income before income taxes and noncontrolling interests	$ 730.8	$ 575.3	$ 537.0

Income tax expense in the consolidated statement of income consisted of the following:

(In millions)	*2020*	2019	2018
Current			
Federal	$ 100.0	$ 94.9	$ 93.5
Foreign	55.9	35.1	26.4
State and other	27.5	21.5	24.1
Deferred			
Federal	(1.8)	(6.9)	3.2
Foreign	(11.5)	(3.1)	(1.8)
State and Local	(1.3)	2.5	1.6
Total income tax expense	$ 168.8	$ 144.0	$ 147.0

A reconciliation between the federal statutory tax rate and the effective tax rate is as follows:

(In millions)	*2020*	2019	2018
Income tax expense computed at federal statutory income tax rate	$ 153.5	$ 120.8	$ 112.8
Other income taxes, net of federal tax benefit	22.3	18.0	13.7
Foreign taxes at a different rate than U.S. federal statutory income tax rate	3.0	1.4	3.5
Provision for foreign earnings repatriation, net	3.2	0.4	0.6
Net adjustments for uncertain tax positions	(0.2)	7.5	4.1
Share-based compensation (ASU 2016-09)	(11.5)	(3.7)	(2.1)
2017 Tax Act impact	—	—	5.5
Deferred tax impact of state tax rate changes	(0.7)	3.1	3.5
Valuation allowance (decrease) increase	(7.1)	3.4	3.0
Expiration of loss carryforwards	6.1	—	—
Miscellaneous other, net	0.2	(6.9)	2.4
Income tax expense as reported	$ 168.8	$ 144.0	$ 147.0
Effective income tax rate	23.1%	25.0%	27.4%

The 2020 effective income tax rate was unfavorably impacted by state, local and foreign taxes, and was favorably impacted by a benefit related to share-based compensation.

The 2019 and 2018 effective income tax rates were unfavorably impacted by state, local and foreign taxes, a valuation allowance increase, and increases in uncertain tax positions. The 2018 effective income tax rate was also unfavorably impacted by an adjustment to the provisional net benefit recorded in 2017 under the Tax Act. The 2019 and 2018 effective income tax rates were favorably impacted by a benefit related to share-based compensation.

The Tax Act, enacted on December 22, 2017, made significant changes to the U.S. Internal Revenue Code including a reduction in the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, an exemption from federal income tax for dividends received from foreign subsidiaries and an imposition of a one-time transition tax on the deemed repatriation of cumulative foreign earnings as of December 31, 2017.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (“UTBs”) is as follows:

(In millions)	*2020*	2019	2018
Unrecognized tax benefits—beginning of year	$ 88.0	$ 83.5	$ 87.5
Gross additions—current year tax positions	7.2	9.2	9.1
Gross additions—prior year tax positions	3.7	2.9	9.3
Gross additions (reductions)—purchase accounting adjustments	12.1	—	1.0
Gross reductions—prior year tax positions	(11.7)	(6.9)	(14.5)
Gross reductions—settlements with taxing authorities	(3.2)	(0.7)	(8.9)
Unrecognized tax benefits—end of year	$ 96.1	$ 88.0	$ 83.5

The amount of UTBs that, if recognized as of December 31, 2020, would affect the Company’s effective tax rate was $80.0 million. It is reasonably possible that, within the next twelve months, total UTBs may decrease in the range of $4.0 million to $48.1 million primarily as a result of the conclusion of U.S. federal, state and foreign income tax proceedings.

We classify interest and penalty accruals related to UTBs as income tax expense. In 2020, 2019 and 2018, we recognized interest and penalty expense of approximately $0.7 million, $3.0 million and $2.2 million, respectively. At December 31, 2020 and 2019, we had accruals for the payment of interest and penalties of $17.6 million and $16.1 million, respectively.

We file income tax returns in the U.S., various state and foreign jurisdictions. The Company is currently under examination by the U.S. Internal Revenue Service for the periods related to 2017 and 2018. In addition to the U.S., we have tax years that remain open and subject to examination by tax authorities in the following major taxing jurisdictions: Canada for years after 2015, Mexico for years after 2015 and China for years after 2016.

The components of net deferred tax assets (liabilities) as of December 31, 2020 and 2019 were as follows:

(In millions)	*2020*	2019
Deferred tax assets:		
Compensation and benefits	$ 43.3	$ 37.6
Defined benefit plans	38.9	50.8
Capitalized inventories	18.4	18.2
Accounts receivable	16.0	5.1
Operating lease liabilities	43.3	42.0
Other accrued expenses	79.7	58.8
Net operating loss and other tax carryforwards	14.4	22.4
Valuation allowance	(9.7)	(16.8)
Miscellaneous	1.2	3.9
Total deferred tax assets	245.5	222.0
Deferred tax liabilities:		
Fixed assets	(86.4)	(70.4)
Intangible assets	(220.9)	(222.9)
Operating lease assets	(43.3)	(42.0)
Other investments	(6.8)	(7.4)
Miscellaneous	(17.8)	(19.2)
Total deferred tax liabilities	(375.2)	(361.9)
Net deferred tax liability	$ (129.7)	$ (139.9)

In accordance with ASC requirements for Income Taxes, deferred taxes were classified in the consolidated balance sheets as of December 31, 2020 and 2019 as follows:

(In millions)	*2020*	2019
Other assets	30.8	17.3
Deferred income taxes	(160.5)	(157.2)
Net deferred tax liability	$ (129.7)	$ (139.9)

As of December 31, 2020 and 2019, the Company had deferred tax assets relating to net operating losses, capital losses, and other tax carryforwards of $14.4 million and $22.4 million, respectively, of which approximately $0.6 million will expire between 2021 and 2025, and the remainder of which will expire in 2026 and thereafter.

The Company has provided a valuation allowance to reduce the carrying value of certain of these deferred tax assets, as management has concluded that, based on the available evidence, it is more likely than not that the deferred tax assets will not be fully realized. During 2020, certain loss carryforwards expired, and as a result, the valuation allowance associated with these loss carryforwards also decreased.

The Company has adjusted the 2019 deferred tax components to include operating lease assets and liabilities on a gross basis for comparative purposes. The impact to 2019 was not material.

Accumulated foreign earnings and profits of the Company’s foreign subsidiaries as of December 31, 2017 were subject to a deemed repatriation tax and should not be subject to additional U.S. federal income tax upon an actual repatriation of these earnings. As of December 31, 2020, the Company has recorded an estimated deferred tax liability of $7.2 million for foreign and state taxes that will be payable upon distribution of these earnings.

Subsequent to December 31, 2017, we consider the unremitted earnings of certain foreign subsidiaries that impose local country taxes on dividends to be indefinitely reinvested. We have not provided deferred taxes on the remaining book over tax outside basis difference of $126 million related to these subsidiaries. The amount of unrecognized deferred tax liabilities for local country withholding taxes that would be owed related to these earnings is less than $7 million.

16. Restructuring and Other Charges

Pre-tax restructuring and other charges for the year ended December 31, 2020 were as follows:

	Year Ended December 31, 2020			
		Other Charges (a)		
(In millions)	Restructuring Charges	Cost of Products Sold	SG&A(b)	Total Charges
Plumbing	$ 6.0	$ 4.4	$ (1.7)	$ 8.7
Outdoors & Security	3.0	0.9	—	3.9
Cabinets	5.5	5.1	0.2	10.8
Corporate	1.4	—	0.3	1.7
Total	$ 15.9	$ 10.4	$ (1.2)	$ 25.1

(a) "Other Charges" represent charges or gains directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such charges or gains may include losses on disposal of inventories, trade receivables allowances from exiting product lines, write-off of displays from exiting a customer relationship, accelerated depreciation resulting from the closure of facilities, and gains and losses on the sale of previously closed facilities.
(b) Selling, general and administrative expenses

Restructuring and other charges in 2020 are largely related to headcount actions associated with COVID-19 across all segments and costs associated with changes in our manufacturing processes within our Plumbing segment.

Pre-tax restructuring and other charges for the year ended December 31, 2019 were as follows:

	Year Ended December 31, 2019			
		Other Charges (a)		
(In millions)	Restructuring Charges	Cost of Products Sold	SG&A(b)	Total Charges
Plumbing	$ 2.8	$ 2.6	$ 2.8	$ 8.2
Outdoors & Security	1.7	1.6	—	3.3
Cabinets	10.2	(0.1)	0.6	10.7
Total	$ 14.7	$ 4.1	$ 3.4	$ 22.2

(a) "Other Charges" represent charges or gains directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such charges or gains may include losses on disposal of inventories, trade receivables allowances from exiting product lines, write-off of displays from exiting a customer relationship, accelerated depreciation resulting from the closure of facilities, and gains and losses on the sale of previously closed facilities.
(b) Selling, general and administrative expenses

Restructuring and other charges in 2019 are largely related to severance costs and costs associated with closing facilities across all our segments.

Pre-tax restructuring and other charges for the year ended December 31, 2018 were as follows:

	Year Ended December 31, 2018			
		Other Charges (a)		
(In millions)	Restructuring Charges	Cost of Products Sold	SG&A(b)	Total Charges
Plumbing	$ 2.6	$ 0.6	$ 0.1	$ 3.3
Outdoors & Security	4.7	2.4	(1.2)	5.9
Cabinets	16.8	9.1	0.3	26.2
Total	$ 24.1	$ 12.1	$ (0.8)	$ 35.4

(a) "Other Charges" represent charges or gains directly related to restructuring initiatives that cannot be reported as restructuring under GAAP. Such charges or gains may include losses on disposal of inventories, trade receivables allowances from exiting product lines, write-off of displays from exiting a customer relationship, accelerated depreciation resulting from the closure of facilities, and gains and losses on the sale of previously closed facilities.
(b) Selling, general and administrative expenses

Restructuring and other charges in 2018 are primarily related to initiatives to consolidate and rationalize our manufacturing footprint and discontinue certain product lines in our Cabinets segment and severance costs within all our segments.

Reconciliation of Restructuring Liability

(In millions)	Balance at 12/31/19	2020 Provision	Cash Expenditures (a)	Non-Cash Write-offs	Balance at 12/31/20
Workforce reduction costs	$ 6.7	$ 14.6	$ (14.4)	$ -	$ 6.9
Other	0.1	1.3	(0.7)	-	0.7
	$ 6.8	$ 15.9	$ (15.1)	$ -	$ 7.6

(a) Cash expenditures primarily related to severance charges.

(In millions)	Balance at 12/31/18	2019 Provision	Cash Expenditures (a)	Non-Cash Write-offs	Balance at 12/31/19
Workforce reduction costs	$ 9.9	$ 13.5	$ (16.6)	$ (0.1)	$ 6.7
Other	0.6	1.2	(1.4)	(0.3)	0.1
	$ 10.5	$ 14.7	$ (18.0)	$ (0.4)	$ 6.8

(a) Cash expenditures primarily related to severance charges.

17. Commitments

Purchase Obligations

Purchase obligations of the Company as of December 31, 2020 were $731.7 million, of which $689.0 million is due within one year. Purchase obligations include contracts for raw materials and finished goods purchases, selling and administrative services, and capital expenditures.

Product Warranties

We generally record warranty expense related to contractual warranty terms at the time of sale. We may also provide customer concessions for claims made outside of the contractual warranty terms and those expenses are recorded in the period in which the concession is made. We offer our customers various warranty terms based on the type of product that is sold. Warranty expense is determined based on historic claim experience and the nature of the product category. The following table summarizes activity related to our product warranty liability for the years ended December 31, 2020, 2019 and 2018.

(In millions)	*2020*	2019	2018
Reserve balance at the beginning of the year	$ 24.7	$ 24.9	$ 17.2
Provision for warranties issued	25.4	25.4	25.1
Settlements made (in cash or in kind)	(27.2)	(25.8)	(25.7)
Acquisition	1.5	—	8.9
Foreign currency	0.1	0.2	(0.6)
Reserve balance at end of year	$ 24.5	$ 24.7	$ 24.9

18. Information on Business Segments

We report our operating segments based on how operating results are regularly reviewed by our chief operating decision maker for making decisions about resource allocations to segments and assessing performance. The Company's operating segments and types of products from which each segment derives revenues are described below.

The Plumbing segment manufactures or assembles and sells faucets, accessories, kitchen sinks and waste disposals, predominantly under the Moen, ROHL, Riobel, Victoria+Albert, Perrin & Rowe and Shaws brands. The Outdoors & Security segment includes fiberglass and steel entry door systems under the Therma-Tru brand name, storm, screen and security doors under the Larson brand name, composite decking and railing under the Fiberon brand name, urethane millwork under the Fypon brand name, locks, safety and security devices, and electronic security products under the Master Lock and American Lock brands, and fire resistant safes, security containers and commercial cabinets under the SentrySafe brand. The Cabinets segment includes stock, semi-custom and custom cabinetry, as well as vanities, for the kitchen, bath and other parts of the home under brand names including Aristokraft, Diamond Now, Mid-Continent, Homecrest, Kitchen Craft, Omega, EVE, Diamond Reflections, Diamond, Kemper, Schrock, Starmark, Ultracraft and Mantra. Corporate expenses consist of headquarters administrative expenses. Corporate assets consist primarily of cash.

The Company's subsidiaries operate principally in the United States, Canada, Mexico, China and Western Europe.

(In millions)	*2020*	2019	2018
Net sales:			
Plumbing	$ 2,202.1	$ 2,027.2	$ 1,883.3
Outdoors & Security	1,419.2	1,348.9	1,183.2
Cabinets	2,469.0	2,388.5	2,418.6
Net sales	$ 6,090.3	$ 5,764.6	$ 5,485.1

Net sales to two of the Company's customers, The Home Depot, Inc. ("The Home Depot") and Lowe's Companies, Inc. ("Lowe's") each accounted for greater than 10% of the Company's net sales in 2020, 2019 and 2018. All segments sell to both The Home Depot and Lowe's. Net sales to The Home Depot were 15%, 14% and 13% of net sales in 2020, 2019 and 2018, respectively. Net sales to Lowe's were 15%, 14% and 14% of net sales in 2020, 2019 and 2018, respectively.

(In millions)	2020	2019	2018
Operating income:			
Plumbing	$ 467.9	$ 427.6	$ 375.3
Outdoors & Security	201.3	172.3	155.6
Cabinets	235.7	178.3	143.5
Less: Corporate expenses	(103.5)	(79.7)	(79.2)
Operating income	$ 801.4	$ 698.5	$ 595.2

(In millions)	2020	2019	2018
Total assets:			
Plumbing	2,262.9	2,110.8	1,943.1
Outdoors & Security	2,453.8	1,596.6	1,526.0
Cabinets	2,366.8	2,355.7	2,318.7
Corporate	275.2	228.2	176.8
Total assets	$ 7,358.7	$ 6,291.3	$ 5,964.6
Depreciation expense:			
Plumbing	$ 37.6	$ 32.0	$ 29.1
Outdoors & Security	33.3	32.3	30.2
Cabinets	47.9	44.3	50.9
Corporate	2.7	2.7	3.3
Depreciation expense	$ 121.5	$ 111.3	$ 113.5
Amortization of intangible assets:			
Plumbing	$ 10.8	$ 10.3	$ 10.4
Outdoors & Security	13.4	13.3	6.1
Cabinets	17.8	17.8	19.6
Amortization of intangible assets	$ 42.0	$ 41.4	$ 36.1
Capital expenditures:			
Plumbing	$ 30.5	$ 35.7	$ 41.4
Outdoors & Security	76.4	63.6	34.3
Cabinets	27.3	30.9	73.8
Corporate	16.3	1.6	0.6
Capital expenditures, gross	150.5	131.8	150.1
Less: proceeds from disposition of assets	(1.6)	(4.2)	(6.1)
Capital expenditures, net	$ 148.9	$ 127.6	$ 144.0
Net sales by geographic region (a)**:**			
United States	$ 5,094.3	$ 4,823.7	$ 4,606.6
China	416.7	355.4	260.6
Canada	414.2	401.0	433.1
Other international	165.1	184.5	184.8
Net sales	$ 6,090.3	$ 5,764.6	$ 5,485.1
Property, plant and equipment, net:			
United States	$ 732.4	$ 641.9	$ 628.9
Mexico	104.7	103.2	103.4
Canada	41.2	43.9	46.0
China	25.0	22.5	22.5
Other international	14.1	12.7	12.6
Property, plant and equipment, net	$ 917.4	$ 824.2	$ 813.4

(a) Based on country of destination

19. Quarterly Financial Data

Unaudited

(In millions, except per share amounts)

2020	1st	2nd	3rd	4th	Full Year
Net sales	$ 1,402.7	$ 1,375.8	$ 1,652.1	$ 1,659.7	$ 6,090.3
Gross profit	493.2	482.9	580.6	607.7	2,164.4
Operating income	155.0	173.0	240.2	233.2	801.4
Income after tax	109.1	118.2	168.2	166.5	562.0
Equity in losses of affiliate	0.3	2.0	2.4	2.9	7.6
Net income	108.8	116.2	165.8	163.6	554.4
Net income attributable to Fortune Brands	109.1	115.8	164.6	163.6	553.1
Basic earnings per common share	0.78	0.84	1.19	1.18	3.99
Diluted earnings per common share	0.77	0.83	1.17	1.16	3.94

2019	1st	2nd	3rd	4th	Full Year
Net sales	$ 1,327.9	$ 1,507.2	$ 1,459.0	$ 1,470.5	$ 5,764.6
Gross profit	458.8	537.6	524.2	531.8	2,052.4
Operating income	135.6	202.4	168.0	192.5	698.5
Income after tax	84.5	137.1	105.7	104.0	431.3
Equity in losses of affiliate	—	—	—	—	—
Net income	84.5	137.1	105.7	104.0	431.3
Net income attributable to Fortune Brands	84.7	137.5	105.6	104.1	431.9
Basic earnings per common share	0.60	0.98	0.76	0.75	3.09
Diluted earnings per common share	0.60	0.97	0.75	0.74	3.06

In 2020, we recorded pre-tax defined benefit plan actuarial loss and settlement loss of $3.2 million —$0.6 million of actuarial loss ($0.4 million after tax) in the third quarter and $2.6 million of actuarial loss and settlement loss ($2.4 million after tax) in the fourth quarter.

In 2019, we recorded pre-tax defined benefit plan actuarial loss of $34.1 million—$2.1 million of actuarial loss ($1.6 million after tax) in the third quarter and $32.0 million of actuarial loss ($24.2 million after tax) in the fourth quarter.

20. Earnings Per Share

The computations of earnings (loss) per common share were as follows:

(In millions, except per share data)		*2020*		2019		2018
Income from continuing operations, net of tax	$	554.4	$	431.3	$	390.0
Less: Noncontrolling interests		1.3		(0.6)		0.2
Income from continuing operations for EPS		553.1		431.9		389.8
Loss from discontinued operations, net of tax		—		—		(0.2)
Net income attributable to Fortune Brands	$	553.1	$	431.9	$	389.6
Earnings (loss) per common share						
Basic						
Continuing operations	$	3.99	$	3.09	$	2.69
Discontinued operations		—		—		—
Net income attributable to Fortune Brands common stockholders	$	3.99	$	3.09	$	2.69
Diluted						
Continuing operations	$	3.94	$	3.06	$	2.66
Discontinued operations		—		—		—
Net income attributable to Fortune Brands common stockholders	$	3.94	$	3.06	$	2.66
Basic average shares outstanding[(a)]		138.7		139.9		144.6
Stock-based awards		1.5		1.4		1.8
Diluted average shares outstanding[(a)]		140.2		141.3		146.4
Antidilutive stock-based awards excluded from weighted-average number of shares outstanding for diluted earnings per share		0.8		1.8		1.5

(a) Reflects the impact of share repurchases during the years ended December 31, 2020, 2019 and 2018, respectively.

21. Other (Income) Expense, Net

The components of other (income) expense, net for the years ended December 31, 2020, 2019 and 2018 were as follows:

(In millions)		*2020*		*2019*		*2018*
Defined benefit plan	$	(1.3)	$	31.9	$	(6.5)
Foreign currency losses (gains)		2.8		(0.7)		(2.0)
Gain on equity investment		(11.0)		—		—
Ineffective portion of cash flow hedge		—		—		(3.8)
Other items, net		(3.8)		(2.2)		(4.0)
Total other (income) expense, net	$	(13.3)	$	29.0	$	(16.3)

22. Contingencies

Litigation

The Company is a defendant in lawsuits that are ordinary routine litigation matters incidental to its businesses. It is not possible to predict the outcome of the pending actions, and, as with any litigation, it is possible that these actions could be decided unfavorably to the Company. The Company believes that there are meritorious defenses to these actions and that these actions will not have a material adverse effect upon the Company's results of operations, cash flows or financial condition, and, where appropriate, these actions are being vigorously contested. Accordingly, the Company believes the likelihood of material loss is remote.

Environmental

Compliance with federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, did not have a material effect on capital expenditures, earnings or the competitive position of Fortune Brands. We are involved in remediation activities to clean up hazardous wastes as required by federal and state laws. Liabilities for remediation costs of each site are based on our best estimate of undiscounted future costs, excluding possible insurance recoveries or recoveries from other third parties. Uncertainties about the status of laws, regulations, technology and information related to individual sites make it difficult to develop estimates of future environmental remediation exposures. Some of the potential liabilities relate to sites we own, and some relate to sites we no longer own or never owned. Several of our subsidiaries have been designated as potentially responsible parties ("PRP") under "Superfund" or similar state laws. As of December 31, 2020, ten such instances have not been dismissed, settled or otherwise resolved. In 2020, none of our subsidiaries were identified as a PRP in a new instance and no instances were settled, dismissed or otherwise resolved. In most instances where our subsidiaries are named as a PRP, we enter into cost-sharing arrangements with other PRPs. We give notice to insurance carriers of potential PRP liability, but very rarely, if ever, receive reimbursement from insurance for PRP costs. We believe that the cost of complying with the present environmental protection laws, before considering estimated recoveries either from other PRPs or insurance, will not have a material adverse effect on our results of operations, cash flows or financial condition. At December 31, 2020 and 2019, we had accruals of $0.3 and $0.2 million, respectively, relating to environmental compliance and cleanup including, but not limited to, the above mentioned Superfund sites.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The Company's management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2020**.**

(b) Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organization of the Treadway Commission ("COSO"). Based on our evaluation under the framework in *Internal Control — Integrated Framework* (2013) issued by the COSO, our management concluded that our internal control over financial reporting was effective as of December 31, 2020. The Company acquired Larson Manufacturing ("Larson") in December 2020 and therefore, as permitted by the Securities and Exchange Commission, we excluded Larson from the scope of our management's assessment of the effectiveness of our internal controls over financial reporting as of December 31, 2020. The total assets and total sales of Larson represent 2.3% and 0.0%, respectively, of the related consolidated financial statements amounts as of and for the year ended December 31, 2020.

PricewaterhouseCoopers LLP, the Company's independent public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, as stated in their report which appears herein.

(c) Changes in Internal Control Over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

See the information under the captions "Proposal 1 – Election of Directors," "Corporate Governance - Board Committees - Audit Committee" and "Delinquent Section 16(a) Reports" contained in the 2021 Proxy Statement, which information is incorporated herein by reference. See the information under the caption "Information about our Executive Officers" contained in Part I of this Annual Report on Form 10-K.

The Company's Board of Directors has adopted a Code of Business Conduct & Ethics which sets forth various policies and procedures intended to promote the ethical behavior of all of the Company's employees. The Company's Board of Directors has also adopted a Code of Ethics for Senior Financial Officers that applies to the Company's principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct & Ethics and the Code of Ethics for Senior Financial Officers are available, free of charge, on the Company's website, http://ir.fbhs.com/governing-high-standards. A copy of these documents is also available and will be sent to stockholders free of charge upon written request to the Company's Secretary. Any amendment to, or waiver from, the provisions of the Code of Business Conduct & Ethics or the Code of Ethics for Senior Financial Officers that applies to any of those officers will be posted to the same location on the Company's website.

Item 11. Executive Compensation.

See the information under the captions “Director Compensation,” “Corporate Governance - Board Committees - Compensation Committee,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “2020 Executive Compensation,” “CEO Pay Ratio” and “Compensation Committee Report” contained in the 2021 Proxy Statement, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See the information under the caption “Certain Information Regarding Security Holdings” contained in the 2021 Proxy Statement, which information is incorporated herein by reference. See also the “Equity Compensation Plan Information” table contained in the 2021 Proxy Statement, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

See the information under the captions “Director Independence,” “Board Committees,” “Policies with Respect to Transactions with Related Persons” and “Certain Relationships and Related Transactions” contained in the 2021 Proxy Statement, which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

See the information under the captions “Fees of Independent Registered Public Accounting Firm” and “Approval of Audit and Non-Audit Services” in the 2021 Proxy Statement, which information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements, Financial Statement Schedules and Exhibits.

(1) Financial Statements (all financial statements listed below are of the Company and its consolidated subsidiaries):

Consolidated Statements of Income for the years ended December 31, 2020, 2019 and 2018 contained in Item 8 hereof.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2020, 2019 and 2018 contained in Item 8 hereof.

Consolidated Balance Sheets as of December 31, 2020 and 2019 contained in Item 8 hereof.

Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018 contained in Item 8 hereof.

Consolidated Statements of Equity for the years ended December 31, 2020, 2019 and 2018 contained in Item 8 hereof.

Notes to Consolidated Financial Statements contained in Item 8 hereof.

Report of Independent Registered Public Accounting Firm contained in Item 8 hereof.

(2) Financial Statement Schedules

See Financial Statement Schedule of the Company and subsidiaries at page 74.

(3) Exhibits

2.1. Equity Purchase Agreement dated November 16, 20202 between Fortune Brands Doors, Inc., Fortune Brands Home & Security, Inc. and the owners of Larson Manufacturing Company of South Dakota and its affiliated companies.**

3.1. Restated Certificate of Incorporation of Fortune Brands Home & Security, Inc., dated as of September 27, 2011, is incorporated herein by reference to Exhibit 3(i) to the Company’s Quarterly Report on Form 10-Q filed on November 5, 2012.

3.2. Amended and Restated Bylaws of Fortune Brands Home & Security, Inc., effective February 23, 2021, are incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on February 23, 2021.

4.1. Description of Securities are incorporated herein by reference to Exhibit 4.1 to the Company’s Annual Report on Form 10-K filed on February 26, 2020.

4.2. Indenture, dated as of June 15, 2015, by and among Fortune Brands Home & Security, Inc., Wilmington Trust, National Association, as Trustee, and Citibank, N.A., as Securities Agent is incorporated herein by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on June 16, 2015.

4.3. First Supplemental Indenture, dated as of June 15, 2015, by and among Fortune Brands Home & Security, Inc., Wilmington Trust, National Association, as Trustee, and Citibank, N.A., as Securities Agent is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on June 16, 2015.

4.4. Second Supplemental Indenture, dated as of September 21, 2018, by and among Fortune Brands Home & Security, Inc. Wilmington Trust National Association as Trustee, and Citibank, N.A., as Securities Agent is incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on September 21, 2018.

4.5. Third Supplemental Indenture, dated as of September 13, 2019, by and among Fortune Brands Home & Security, Inc., Wilmington Trust, National Association, as Trustee, and Citibank, N.A., as Securities Agent is incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on September 13, 2019.

4.6. Form of global certificate for the Company's 4.000% Senior Notes due 2025 is incorporated herein by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K on June 16, 2015.

4.7. Form of global certificate for the Company's 4.000% Senior Notes due 2023 is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on September 21, 2018.

4.8. Form of global certificate for the Company's 3.250% Senior Notes due 2029 is incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on September 13, 2019.

10.1. Tax Allocation Agreement, dated as of September 28, 2011, by and between Fortune Brands Home & Security, Inc. and Fortune Brands, Inc. (N/K/A Beam Suntory Inc.) is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 30, 2011.

10.2. Indemnification Agreement, dated as of September 14, 2011, by and between Fortune Brands Home & Security, Inc. and Fortune Brands, Inc. (N/K/A Beam Suntory Inc.) is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 15, 2011.

10.3. $1,250,000,000 Second Amended and Restated Credit Agreement by and among the Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, dated September 30, 2019 is incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on October 31, 2019.

10.4. $400,000,000 Credit Agreement among the Company, the lenders party thereto and JP Morgan Chase Bank, N.A., as Administrative Agent, dated April 29, 2020, is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 1, 2020.

10.5. Fortune Brands Home & Security, Inc. Annual Executive Incentive Compensation Plan is incorporated herein by reference to Appendix B to the Company's Definitive Proxy Statement filed on March 5, 2013.*

10.6. Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's registration Statement on Form S-8 filed on October 3, 2011.*

10.7. Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Appendix A to the Company's Definitive Proxy Statement filed on March 5, 2013.*

10.8. Amendment Number One to the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan, dated as of August 2, 2016, is incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 2, 2016.*

10.9. Form of Founders Grant Stock Option Award Notice & Agreement for awards under the Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 11, 2011.*

10.10. Form of 2012 Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on February 22, 2012.*

10.11. Form of 2013 Stock Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2011 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on February 27, 2013.*

10.12. Form of 2014 Stock Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K filed on February 26, 2014.*

10.13. Form of 2016 Stock Option Award Notice and Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on April 28, 2016.*

10.14. Form of Stock Option Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive, is incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed on February 26, 2020.*

10.15. Form of Performance Share Award Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed on February 26, 2020.*

10.16. Form of Restricted Stock Unit Award Agreement for awards under the Fortune Brands Home & Security, Inc. 2013 Long-Term Incentive Plan, is incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K filed on February 26, 2020.*

10.17. Form of Agreement for the Payment of Benefits Following Termination of Employment between the Company and each of Nicholas I. Fink, Patrick D. Hallinan, Robert K. Biggart, Sheri R. Grissom, Brian C. Lantz, John D. Lee, Marty Thomas and Tracey L. Belcourt, is incorporated herein by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on February 28, 2018.*

10.18. Form of Agreement for the Payment of Benefits Following Termination of Employment for each of R. David Banyard, Jr., Brett E. Finley and Cheri M. Phyfer, is incorporated herein by reference to Exhibit 10.24 to the Company's annual Report on Form 10-K filed on February 28, 2018.*

10.19. Fortune Brands Home & Security, Inc. Directors' Deferred Compensation Plan (as Amended and Restated Effective January 1, 2013) is incorporated herein by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on February 27, 2013.*

10.20. Fortune Brands Home & Security, Inc. Non-Employee Director Stock Election Program is incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed on February 22, 2012.*

10.21. Fortune Brands Home & Security, Inc. Deferred Compensation Plan, amended & restated as of February 27, 2017 is incorporated herein by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on February 28, 2017.*

21. Subsidiaries of the Company.**

23. Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP.**

24. Powers of Attorney relating to execution of this Annual Report on Form 10-K.**

31.1. Certificate of Chief Executive Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.**

31.2. Certificate of Chief Financial Officer Required Under Section 302 of the Sarbanes-Oxley Act of 2002.**

32. Joint CEO/CFO Certification Required Under Section 906 of the Sarbanes-Oxley Act of 2002.**

101. The following materials from the Fortune Brands Home & Security, Inc. Annual Report on Form 10-K for the year ended December 31, 2020 formatted in Inline eXtensible Business Reporting Language (iXBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (vi) the Consolidated Statements of Equity, and (vi) the Notes to the Consolidated Financial Statements.**

104. The cover page of the Company's Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL and contained in Exhibit 101.**

* Indicates the exhibit is a management contract or compensatory plan or arrangement.

** Indicates the exhibit is being furnished or filed herewith, as applicable.

Item 16. Form 10-K Summary

None.

Table of Contents

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.

FORTUNE BRANDS HOME & SECURITY, INC.
(The Company)

Date: February 24, 2021

By:

/s/ NICHOLAS I. FINK
Nicholas I. Fink
Chief Executive Officer (principal executive officer)

/s/ PATRICK D. HALLINAN
Patrick D. Hallinan
Senior Vice President and Chief Financial Officer
(principal financial officer)

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 dates indicated.

/s/ NICHOLAS I. FINK
Nicholas I. Fink, Chief Executive Officer and Director
(principal executive officer)
Date: February 24, 2021

/s/ PATRICK D. HALLINAN
Patrick D. Hallinan, Senior Vice President and Chief Financial Officer (principal financial officer)
Date: February 24, 2021

/s/ DANNY LUBURIC
Danny Luburic, Vice President – Controller
(principal accounting officer)
Date: February 24, 2021

/s/ AMIT BANATI*
Amit Banati, Director
Date: February 24, 2021

/s/ IRIAL FINAN*
Irial Finan, Director
Date: February 24, 2021

/s/ ANN FRITZ HACKETT*
Ann Fritz Hackett, Director
Date: February 24, 2021

/s/ SUSAN S. KILSBY*
Susan S. Kilsby, Director
Date: February 24, 2021

/s/ A.D. DAVID MACKAY*
A.D. David Mackay, Director
Date: February 24, 2021

/s/ JOHN G. MORIKIS *
John G. Morikis, Director
Date: February 24, 2021

/s/ JEFFERY S. PERRY*
Jeffery S. Perry, Director
Date: February 24, 2021

/s/ DAVID M. THOMAS*
David M. Thomas, Director
Date: February 24, 2021

/s/ RONALD V. WATERS, III*
Ronald V. Waters, III, Director
Date: February 24, 2021

*By: /s/ ROBERT K. BIGGART
Robert K. Biggart, Attorney-in-Fact

Schedule II Valuation and Qualifying Accounts
For the years ended December 31, 2020, 2019 and 2018

(In millions)	Balance at Beginning of Period	Charged to Expense	Reclassifications (c)	Write-offs and Deductions (a)	Business Acquisition (b)	Balance at End of Period
2020:						
Allowance for cash discounts and sales allowances	$ 96.9	$ 258.3	$ 23.3	$ 228.3	$ 2.8	$ 153.0
Allowance for credit losses	3.0	5.1	2.2	3.6	—	6.7
Allowance for deferred tax assets	16.8	(7.1)	—	—	—	9.7
2019:						
Allowance for cash discounts and sales allowances	$ 84.6	$ 198.6	$ —	$ 186.3	$ —	$ 96.9
Allowance for credit losses	3.7	1.6	—	2.3	—	3.0
Allowance for deferred tax assets	13.3	3.5	—	—	—	16.8
2018:						
Allowance for cash discounts and sales allowances	$ 84.0	$ 216.1	$ (16.0)	$ 199.5	$ —	$ 84.6
Allowance for credit losses	3.3	1.5	—	1.4	0.3	3.7
Allowance for deferred tax assets	11.0	2.3	—	—	—	13.3

(a) Net of recoveries of amounts written off in prior years and immaterial foreign currency impact.
(b) Represents purchase accounting adjustment related to the Larson acquisition within our Outdoors & Security segment in 2020 and Fiberon acquisition within our Outdoors & Security segment in 2018.
(c) Represents the reclassification of certain customer program liabilities to sales allowances for our Cabinets segment and accrued credits due to the adoption of CECL across all segments during 2020. Represents reclassification of reserve for returns to a separate liability account due to our adoption of the revenue recognition standard and a reclassification of sales allowances to certain customer program liabilities across all segments during 2018.

Exhibit 2.1

EQUITY PURCHASE AGREEMENT

BY AND AMONG

FORTUNE BRANDS DOORS, INC.

AND

LARSON SD HOLDINGS, INC.

LARSON IA HOLDINGS, INC.

AEI, LLC

COMFORT BILT, LLC

THE OTHER SELLERS PARTY HERETO

AND

SHAREHOLDER REPRESENTATIVE SERVICES LLC, AS THE SELLERS' REPRESENTATIVE

TABLE OF CONTENTS

ARTICLE 1 – RESTRUCTURING AND EQUITY SALE		2
1.1	Restructuring and Equity Sale	2
1.2	Purchase of Certain Equity	3
1.3	Payment of Consideration	4
1.4	Withholding Rights; Offset Rights	4
ARTICLE 2 - CONSIDERATION, ADJUSTMENTS AND RECONCILIATION		5
2.1	Consideration	5
2.2	Calculation of Estimated Transaction Consideration for Closing; Payoff Letters	5
2.3	Payment of Estimated Consideration and Related Payments	5
2.4	Transaction Consideration Adjustment and Reconciliation	6
ARTICLE 3 - REPRESENTATIONS AND WARRANTIES OF THE TARGET COMPANIES		10
3.1	Organization and Good Standing	10
3.2	Capitalization	10
3.3	Authority and Authorization; Conflicts; Consents	11
3.4	Financial Statements and Undisclosed Liabilities	11
3.5	Taxes	12
3.6	Litigation, Orders and Injunctions	14
3.7	Compliance with Law	14
3.8	Contracts.	15
3.9	Certain Assets	17
3.10	Real Property	17
3.11	Environmental Matters	18
3.12	Intellectual Property	18
3.13	Insurance	19
3.14	Absence of Certain Events	19
3.15	Employee Benefits	21
3.16	Employees and Labor Relations	22
3.17	Brokers	22
3.18	Related Party Transactions	22
3.19	Certain Exclusivity	23
ARTICLE 4 - REPRESENTATIONS AND WARRANTIES OF BUYER		23
4.1	Organization and Good Standing	23
4.2	Authority and Authorization; Conflicts; Consents	23
4.3	Litigation, Orders and Injunctions	24
4.4	Availability of Funds	24
4.5	Buyer’s Independent Investigation	24
4.6	Brokers	25
ARTICLE 5 - CERTAIN COVENANTS		25
5.1	Certain Actions to Close Transactions	25
5.2	Pre-Closing Conduct of Business	26
5.3	Further Assurances	28
5.4	Access to Information	28
5.5	Confidentiality and Publicity	29
5.6	Employee Matters	30
5.7	Exculpation and Indemnification of Directors and Officers	31

5.8	Certain Tax Matters	32
5.9	Exclusivity	34
5.10	Transition Matters; Return of Personal Property	34
ARTICLE 6 - CLOSING, CLOSING DELIVERIES AND TERMINATION		35
6.1	Closing	35
6.3	Closing Deliveries by Buyer	35
6.4	Termination of Agreement	35
6.5	Effect of Termination	36
ARTICLE 7 - CONDITIONS TO OBLIGATIONS TO CLOSE		37
7.1	Conditions to Obligation of Buyer to Close	37
7.2	Conditions to Obligation of the Target Companies and Sellers' Representative to Close	37
ARTICLE 8 – CERTAIN LIABILITY MATTERS		38
8.1	No Survival	38
8.2	Losses	38
8.3	Certain Disclaimers	39
8.4	Adjustment Escrow and Sellers Expense Amount	39
ARTICLE 9 - CERTAIN GENERAL TERMS AND OTHER AGREEMENTS		40
9.1	Notices	40
9.2	Expenses	41
9.3	Interpretation; Construction	41
9.4	Parties in Interest; Third Party Beneficiaries	42
9.5	Governing Law	42
9.6	Jurisdiction, Venue and Waiver of Jury Trial	43
9.7	Entire Agreement; Amendment; Waiver	43
9.8	Assignment; Binding Effect	43
9.9	Severability; Blue Pencil	43
9.10	Counterparts	44
9.11	Disclosure Schedules	44
9.12	Specific Performance	44
9.13	Legal Representation	44
9.14	Sellers' Representative and Related Matters	45
9.15	Guaranty of Buyer's Obligations Through Closing	46
ARTICLE 10 - CERTAIN DEFINITIONS		46

EXHIBITS:

Exhibit 1.1 Illustration of Restructuring
Exhibit 2.4(g) Allocation of Transaction Consideration
Exhibit 5.6(f) Scheduled 2020 Bonuses
Exhibit 5.10(a) Certain Transition Matters
Exhibit 8.4(a) Form of Escrow Agreement
Exhibit 10.1 Net Working Capital
Exhibit 10.2 Closing Payment Recipients / Percentages

EQUITY PURCHASE AGREEMENT

THIS EQUITY PURCHASE AGREEMENT (this "Agreement") is entered into effective as of November 16, 2020 (the "Signing Date"), by and among Fortune Brands Doors, Inc., a Delaware corporation ("Buyer"), Larson SD Holdings, Inc., a South Dakota corporation ("Larson SD Holdings"), Larson IA Holdings, Inc., a South Dakota corporation ("Larson IA Holdings"), the other sellers set forth on the signature pages hereto, Larson Manufacturing Company of South Dakota, Inc., a South Dakota corporation ("Larson SD"), Larson Manufacturing Company of Iowa, Inc., a South Dakota corporation ("Larson Iowa"), AEI, LLC, a South Dakota limited liability company ("AEI"), Comfort Bilt, LLC, a South Dakota limited liability company ("Comfort Bilt") and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as Sellers' Representative as defined in this Agreement as agent for and on behalf of Sellers. Article 10 contains definitions of various capitalized terms used in this Agreement.

RECITALS

A. At Closing, after giving effect to the Restructuring, (a) Larson SD Holdings will own all of the issued and outstanding Larson SD Units and (b) Larson IA Holdings will own all of the issued and outstanding Larson Iowa Units.

B. At Closing, (a) the O. Dale Larson Revocable Trust U/A/D 4/7/92 (the "Comfort Bilt Equityholder") will own all of the issued and outstanding membership units of Comfort Bilt (such outstanding membership units being "Comfort Bilt Units"), and (b) the Jeffrey T. Rief Living Trust (the "Rief Trust"), the Henry Hitt Revocable Trust UAD April 25, 2019 (the "Hitt Trust"), Bill Retterath ("Retterath"), Troy Bunker ("Bunker"), Dan Beinhorn ("Beinhorn") and LMC (each such Person, other than LMC, is an "AEI Equityholder" and each of AEI Equityholder, Comfort Bilt Equityholder, Larson SD Holdings, and Larson IA Holdings is a "Seller") will own all of the issued and outstanding membership units of AEI (such outstanding membership units of each AEI Equityholder (which, for avoidance of doubt, excludes any membership units held by LMC) being "AEI Units").

C. Larson SD, Larson Iowa, AEI and Comfort Bilt (each a "Target Company"; and the Target Companies and Sellers together, the "Larson Parties"), individually or together with one or more Sellers, owns, directly or indirectly, all of the issued and outstanding equity interests of Larson Manufacturing Company, Inc., a South Dakota corporation ("LMC"), All Weather Products, L.L.C., a South Dakota limited liability company, CLO Larson Manufacturing Company, a South Dakota corporation ("CLO"), LMC Warranty Company, a South Dakota corporation ("LMC Warranty"), Genius of North America, L.L.C., a South Dakota limited liability company, LGR, LLC, a South Dakota limited liability company, Larson Transportation, LLC, a Wisconsin limited liability company, Larson Installation, L.L.C., a South Dakota limited liability company, Larson Manufacturing of Canada, Inc., a South Dakota corporation ("LM Canada"), Larson Manufacturing of Canada ULC, a British Columbia corporation, and Weather-Star, L.L.C., a South Dakota limited liability company (each of the foregoing entities in this Recital C, excluding the Target Companies, is a "Company Subsidiary," and each Company Subsidiary and each Target Company, is an "Acquired Company").

D. Collectively, the Acquired Companies are in the business of designing, manufacturing, distributing and selling residential doors, windows and screens in the United States and Canada (the "Business").

E. Larson SD Holdings desires to sell, assign and transfer to Buyer, and Buyer desires to purchase from Larson SD Holdings, all of the Larson SD Units, upon and subject to the terms herein.

F. Larson IA Holdings desires to sell, assign and transfer to Buyer, and Buyer desires to purchase from Larson IA Holdings, all of the Larson Iowa Units, upon and subject to the terms herein.

G. The Comfort Bilt Equityholder desires to sell, assign and transfer to Buyer, and Buyer desires to purchase from the Comfort Bilt Equityholder, all of the Comfort Bilt Units, upon and subject to the terms herein.

H. Each AEI Equityholder desires to sell, assign and transfer to Buyer, and Buyer desires to purchase from each AEI Equityholder, all of the AEI Units, upon and subject to the terms herein.

I. Prior to the Closing, a restructuring of Larson SD and Larson Iowa will be completed (the "Restructuring") pursuant to Section 1.1.

J. For Income Tax purposes the Parties intend that (a) the purchase of certain equity described in Section 1.2 will be treated as an acquisition of all the assets and assumption of all of the liabilities of Comfort Bilt, Larson SD and Larson Iowa and (b) the purchase of certain equity described in Section 1.2 will be treated with respect to each AEI Equityholder (other than LMC) as the purchase of the Units of AEI other than those held by LMC.

K. Contemporaneously with the Parties' execution and delivery of this Agreement, Fortune Brands Home & Security, Inc. is entering into (i) employment offer letters and (ii) non-compete agreements with Jeffrey Rief, Henry Hitt, Retterath, Beinhorn and Bunker, each of which will be effective upon Closing.

AGREEMENT

In consideration of the foregoing and the representations, warranties, covenants and agreements in this Agreement, each Party hereby agrees as follows:

ARTICLE 1 – RESTRUCTURING AND EQUITY SALE

1.1 **Restructuring and Equity Sale.**

(a) No later than 10 Business Days after the Signing Date, the shareholders of Larson SD as of such date (the "Pre-Reorganization SD Shareholders"), the shareholders of Larson Iowa as of such date (the "Pre-Reorganization Iowa Shareholders"), Larson SD, Larson Iowa, Larson SD Holdings, Larson IA Holdings, LM Canada, CLO, and LMC Warranty will complete the Restructuring by taking the following steps:

(i) The Pre-Reorganization SD Shareholders, Larson SD and Larson SD Holdings will cause Larson SD Intermediate Co, Inc. a South Dakota corporation and wholly-owned subsidiary of Larson SD Holdings to be merged with and into Larson SD, with Larson SD being the surviving corporation, and each Pre-Reorganization SD Shareholder receiving the same number and type of shares of common stock in Larson SD Holdings as such Person had in Larson SD prior to such merger, resulting in Larson SD Holdings

becoming the sole shareholder of Larson SD on the effective date of such mergers; such effective date will be day one of the Restructuring;

(ii) The Pre-Reorganization Iowa Shareholders, Larson Iowa and Larson IA Holdings will cause Larson Iowa Intermediate Co, Inc., a South Dakota corporation and wholly-owned subsidiary of Larson IA Holdings to be merged with and into Larson Iowa, with Larson Iowa being the surviving corporation, and each Pre-Reorganization Iowa Shareholder receiving the same number and type of shares of common stock in Larson IA Holdings as such Person had in Larson Iowa prior to such merger, resulting in Larson IA Holdings becoming the sole shareholder of Larson Iowa on the effective date of such mergers; such effective date will be day one of the Restructuring;

(iii) Larson SD Holdings will file an election to treat Larson SD as a "qualified subchapter S subsidiary" within the meaning of section 1361(b)(3)(B) of the Code with the appropriate Governmental Authorities to be effective on the date to be agreed by Buyer and Sellers;

(iv) Larson IA Holdings will file an election to treat Larson Iowa as a "qualified subchapter S subsidiary" within the meaning of section 1361(b)(3)(B) of the Code with the appropriate Governmental Authorities to be effective on the date to be agreed by Buyer and Sellers;

(v) Larson SD and Larson Iowa will convert to limited liability companies in accordance with the South Dakota Business Corporation Act (the "SDBCA") and South Dakota Limited Liability Company Act (the "SDLLCA"), so that the outstanding shares of Larson SD owned by Larson SD Holdings will be converted into units (the "Larson SD Units") and the outstanding shares of Larson Iowa owned by Larson IA Holdings will be converted into units ("Larson Iowa Units") on day four of the Restructuring;

(vi) LM Canada, CLO and LMC Warranty will be converted into limited liability companies pursuant to the SDBCA and SDLLCA prior to the Closing Date; and

(vii) An illustration of the Restructuring is attached as Exhibit 1.1.

(b) On or before the day prior to the Closing Date, Comfort Bilt will redeem all of the outstanding equity interests of Comfort Bilt other than any such equity interests owned by the Comfort Bilt Equityholder. These redemptions shall be at the price and terms determined by the managers of Comfort Bilt and shall be paid out of Cash of the Acquired Companies prior to the Closing.

1.2 **Purchase of Certain Equity.**

(a) At Closing, Larson SD Holdings will sell, assign and transfer to Buyer, and Buyer will purchase from Larson SD Holdings, all of the Larson SD Units.

(b) At Closing, Larson IA Holdings will sell, assign and transfer to Buyer, and Buyer will purchase from Larson IA Holdings, all of the Larson Iowa Units.

(c) At Closing, the Comfort Bilt Equityholder will sell, assign and transfer to Buyer, and Buyer will purchase from the Comfort Bilt Equityholder, all of the Comfort Bilt Units.

(d) At Closing, each AEI Equityholder will sell, assign and transfer to Buyer, and Buyer will purchase from each AEI Equityholder, all of the AEI Units.

1.3 **Payment of Consideration.**

(a) Buyer will engage Acquiom Financial LLC, a Colorado limited liability company, in its capacity as payments administrator (the "Paying Agent"), or another paying agent acceptable to the Seller Representative, who will pay the Aggregate Net Closing Consideration as set forth herein. The Paying Agent will be making such payments on behalf of Buyer. Promptly after the Restructuring is completed, the Target Companies will provide Buyer with each Closing Payment Recipient's wire transfer instructions for the payment of amounts owing hereunder, which may be updated from time-to-time prior to Closing by the Target Companies and after Closing by Sellers' Representative by written notice to Buyer, the Paying Agent and Sellers' Representative ("Payment Instructions").

(b) Each Seller hereby directs Buyer, the Paying Agent, and the Escrow Agent, to make any payments owing to it hereunder directly to the Persons set forth on Exhibit 10.2 (as updated through Closing) (each a "Closing Payment Recipient"), pursuant to their Payment Instructions and in the relative proportion based on their Percentages set forth in Exhibit 10.2. At Closing, Buyer will, or will cause the Paying Agent to, pay to each Closing Payment Recipient its Percentage of the Aggregate Net Closing Consideration by wire transfer of immediately available funds or by electronic check (ACH), as applicable, to the account specified for such Closing Payment Recipient in the Payment Instructions. Additionally, to the extent that any amounts are payable to the Closing Payment Recipients pursuant to Section 2.4(f), Buyer will, or will cause the Paying Agent to, pay to each Closing Payment Recipient its Percentage such amounts by wire transfer of immediately available funds or by electronic check (ACH), as applicable, to the account specified for such Closing Payment Recipient in the Payment Instructions.

1.4 **Withholding Rights; Offset Rights.**

(a) Buyer, the Paying Agent or the Escrow Agent, as the case may be, will deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any Person (including to withhold and deduct from the amount payable to such Person at Closing any required amount attributable to payments into escrow at Closing on behalf of such Person) such amounts, if any, as it is required to deduct and withhold with respect to the making of such payment under the Code or any provision of Applicable Law. To the extent that amounts are so withheld, such withheld amounts will be treated for purposes of this Agreement as having been paid to such Person by Buyer, the Paying Agent, or the Escrow Agent, as applicable.

(b) Buyer, the Paying Agent or the Escrow Agent, as the case may be, will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any Closing Payment Recipient (including to withhold and deduct from the amount payable to such Closing Payment Recipient at Closing any required amount attributable to payments into escrow at Closing on behalf of such Closing Payment Recipient) such amounts, if any, that are owed by such Closing Payment Recipient to any Acquired Company as of the Closing Date and are set forth on Schedule 3.16(e). Any consideration otherwise payable to a Closing Payment Recipient that is withheld in accordance with this Section 1.4(b) in the satisfaction of an amount owed by such Closing Payment Recipient shall reduce the amount owed by such Closing Payment Recipient to the applicable Acquired Company, to the extent of the amount of such withholding.

ARTICLE 2 - CONSIDERATION, ADJUSTMENTS AND RECONCILIATION

2.1 **Consideration.** Upon and subject to the terms herein, Buyer will pay the amount of $740,000,000 (the "Initial Consideration"), as such amount is adjusted pursuant to the terms herein (such amount, as so adjusted, is the "Transaction Consideration"). Payment by Buyer of the Transaction Consideration as described in Section 1.3 shall be made to the Closing Payment Recipients, at the direction of the Sellers who will not receive such payments, in exchange for the transfer by the Sellers of the Larson SD Units, the Larson Iowa Units, Comfort Bilt Units and AEI Units.

2.2 **Calculation of Estimated Transaction Consideration for Closing; Payoff Letters.** On or before the third Business Day before the Closing Date, the Target Companies will deliver to Buyer a statement containing, in reasonable detail, the Target Companies' good faith reasonable estimate of: (a) Net Working Capital, Cash, Funded Indebtedness and Transaction Expenses; and (b) the Transaction Consideration (which estimated Transaction Consideration, for Closing, will be the sum of "X" and "Y," where "X" equals (1) the Initial Consideration *plus* any amount by which such estimated Net Working Capital exceeds Target Net Working Capital, (2) the Initial Consideration, if such estimated Net Working Capital equals Target Net Working Capital, or (3) the Initial Consideration *minus* any amount by which such estimated Net Working Capital is less than Target Net Working Capital, as applicable, and where "Y" equals the amount of Cash (the amount of the estimated Transaction Consideration as determined pursuant to this Section 2.2 is the "Estimated Consideration")). Buyer shall be entitled to review, comment on and request reasonable changes to the amount and calculation of the Estimated Consideration, and the Target Companies shall consult and confer with Buyer and consider in good faith any comments made by Buyer with respect to the amount and calculation of the Estimated Consideration prior to the Closing Date. In the event that Buyer and the Target Companies cannot mutually determine the amount of the Estimated Consideration within two Business Days after Buyer's receipt of the Target Companies' amount and calculation of the Estimated Consideration, the Parties agree that the Target Companies' then-proposed amount and calculation of the Estimated Consideration will be the Estimated Consideration at Closing for all purposes hereunder (it being understood, however, that the amount of any estimated Funded Indebtedness and estimated Transaction Expenses will, in all cases, equal the amounts to be paid by Buyer pursuant to Section 2.3(a)(3) and Section 2.3(a)(4), respectively). On or before the third Business Day before the Closing Date, the Target Companies shall deliver to Buyer payoff letters, in customary form, from each of the holders of Funded Indebtedness (the "Payoff Letters").

2.3 **Payment of Estimated Consideration and Related Payments.** Upon and subject to the terms herein, the Estimated Consideration will be paid as follows:

(a) At Closing and on the Closing Date, upon and subject to the terms herein, the following will occur:

(1) Buyer will deposit into escrow with the Escrow Agent, the amount of $10,000,000 (the "Post-Closing Adjustment Escrow Amount"), to be held by the Escrow Agent pursuant to the terms hereof and the Escrow Agreement;

(2) Buyer will, on behalf of the Sellers, deposit into an account that Sellers' Representative designates in writing on or before the Closing Date, the amount of $200,000 (the "Sellers Expense Amount"), to be held by Sellers' Representative pursuant to the terms hereof;

(3) Buyer, on the applicable Acquired Company's behalf, will pay each of the obligations necessary to satisfy all Funded Indebtedness as of immediately before Closing as provided in the Payoff Letters (such amount, the "Estimated Funded Indebtedness"); and

(4) Buyer, on the applicable Acquired Company's behalf, will pay all unpaid Transaction Expenses as of immediately before Closing to the extent determinable at Closing, by wire transfer of immediately available funds to the accounts that the Target Companies designate in writing on or before the Closing Date (such amount, the "Estimated Transaction Expenses").

"Aggregate Net Closing Consideration" means the remaining balance of the Estimated Consideration, after making the payments in the preceding clauses of this Section 2.3(a).

(b) At Closing, Buyer will, or will cause the Paying Agent to, pay the applicable portions of the Aggregate Net Closing Consideration in accordance with Section 1.3.

2.4 **Transaction Consideration Adjustment and Reconciliation.** Each Party will assist and cooperate with each other and each other's representatives in all reasonable respects in connection with the matters in this Section 2.4, including giving each other and such representatives reasonable access at all reasonable times to the applicable personnel, properties, books and records of the Acquired Companies for such matters (except that no Party will be required to give access to or otherwise disclose any information if such access or disclosure would jeopardize any attorney-client or other privilege or contravene any Applicable Law).

(a) **Buyer's Preparation of the Statement.** Within 60 days after the Closing Date, Buyer will prepare and deliver to Sellers' Representative a statement (the "Statement") stating, in reasonable detail, Buyer's determination of (1) Net Working Capital and Cash, (2) the Transaction Expenses and (3) the Funded Indebtedness as of Closing. The final determination of Net Working Capital and Cash pursuant to this Section 2.4 is the "Final Net Working Capital and Cash." The final determination of the Transaction Expenses as of the Closing pursuant to this Section 2.4 is the "Final Transaction Expenses." The final determination of the Funded Indebtedness as of the Closing pursuant to this Section 2.4 is the "Final Funded Indebtedness."

(b) **Sellers' Representative's Response to the Statement.** The Net Working Capital and Cash, the Transaction Expenses and the Funded Indebtedness as of the Closing as set forth in the Statement will become final and binding (and become Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness) 60 days after Buyer gives the Statement to Sellers' Representative, unless Sellers' Representative gives written notice, in reasonable detail, of disagreement therewith (a "Notice of Disagreement") to Buyer at or before the end of such 60-day period. If Sellers' Representative gives a Notice of Disagreement at or before the end of such 60-day period, then Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness (as finally determined in accordance with the following clause (b)(1) or (b)(2)) will become final and binding upon the earlier of (1) the date Sellers' Representative and

Buyer resolve in writing all remaining differences they have with respect to Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness or (2) the date all remaining disputed items are finally resolved in writing by the Arbitrator pursuant to Section 2.4(c). Buyer will not modify the Statement (after it is delivered) in any manner adverse to Sellers (including by later raising any new item not reflected in the Statement). Sellers' Representative will not modify the Notice of Disagreement (after such notice is given) in any manner adverse to Buyer (including by later raising any new item not reflected in the Notice of Disagreement). Any item or amount in, or omitted from, the Statement that Sellers' Representative does not disagree with in the Notice of Disagreement will be final and binding in the manner stated in, or omitted from, the Statement.

(c) **Resolving Matters in Disagreement.** During the 30-day period after a Notice of Disagreement is given, Sellers' Representative and Buyer will attempt to resolve in writing any differences that they have regarding Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness. If, at the end of such 30-day period, Sellers' Representative and Buyer have not reached agreement on all such differences, then either Sellers' Representative or Buyer may require that the items that remain in dispute be promptly submitted to Deloitte Touche Tohmatsu or such other nationally recognized public accounting firm agreed upon by Sellers' Representative and Buyer in writing (the "Arbitrator") for review and resolution. The Arbitrator will determine procedures for such arbitration, subject to the terms hereof. The Arbitrator will only consider the items that remain in dispute. The Arbitrator will not assign a value to any item that is greater than the greater value for such item claimed by Sellers' Representative or Buyer or less than the lesser value for such item claimed by Sellers' Representative or Buyer. The Arbitrator will determine Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness solely based on submissions made by Sellers' Representative and Buyer, and the Arbitrator's determination of Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness must be consistent with the terms of this Agreement. The Arbitrator will render a written decision resolving such items in dispute within 30 days after completion of submissions to the Arbitrator.

(d) **Allocation of Fees and Expenses.** The Non-Prevailing Party in such arbitration will pay its own and its Affiliates' fees and expenses incurred with respect to such arbitration and will also pay a fraction of the sum of: (1) the fees and expenses of the Arbitrator; *plus* (2) the reasonable out of pocket fees and expenses (including reasonable attorneys' fees) of the Prevailing Party and its Affiliates incurred with respect to such arbitration. Such fraction will be determined as follows: (A) its numerator will be an amount equal to the difference between the Non-Prevailing Party's determination of the items in dispute (in the aggregate and as submitted to the Arbitrator) and the Arbitrator's determination of such items; and (B) its denominator will be an amount equal to the difference between Sellers' Representative's and Buyer's respective determinations of such items (in the aggregate and as submitted to the Arbitrator). The Prevailing Party will pay the remainder of the fees and expenses of the Arbitrator and the remainder of the Prevailing Party's and its Affiliates' fees and expenses. Notwithstanding the foregoing, if the Arbitrator's determination of such items in dispute is exactly midway between Sellers' Representative's and Buyer's determination of such items, then Sellers' Representative (on behalf of the Sellers) and Buyer each will pay one-half of the fees and expenses of the Arbitrator (and otherwise will pay its own and its Affiliates' fees and expenses as described above). Sellers (considered as one Party for this purpose, with Sellers' Representative acting on their behalf as contemplated herein) or Buyer is the "Prevailing Party" if the Arbitrator's determination of such items is closer to such Party's determination of such items than it is to such other Party's

determination of such items (in each case in the aggregate and as submitted to the Arbitrator). Sellers (considered as one Party for this purpose, with Sellers' Representative acting on their behalf as contemplated herein) or Buyer is the "Non-Prevailing Party" if the other is the Prevailing Party. Sellers' obligation to pay any fees and expenses under this Section 2.4(d) shall be paid out of the Post-Closing Adjustment Escrow Amount.

(e) **Adjustment to Transaction Consideration Based on Final Net Working Capital and Cash.** The Transaction Consideration will be, and automatically will be adjusted to be, the Estimated Consideration, (1) increased by the amount, if any, by which the amount of the Net Working Capital included in the Final Net Working Capital and Cash exceeds the estimated Net Working Capital included in the Estimated Consideration, (2) decreased by the amount, if any, by which the amount of the Net Working Capital included in the Final Net Working Capital and Cash is less than the estimated Net Working Capital included in the Estimated Consideration, (3) increased by the amount, if any, by which the amount of Cash included in the Final Net Working Capital and Cash exceeds the estimated Cash included in the Estimated Consideration and (4) decreased by the amount, if any, by which the amount of Cash included in the Final Net Working Capital and Cash is less than the estimated Cash included in the Estimated Consideration. However, if no such adjustment is required pursuant to this Section 2.4(e), then the Transaction Consideration will equal the Estimated Consideration.

(f) **Reconciliation Payment.** Within five Business Days after Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness become final and binding, the following will occur (with the payments in this Section being made without interest by wire transfer of immediately available funds, and with any amount paid or disbursed to Paying Agent under the following being allocated among the Closing Payment Recipients as contemplated in Article 1).

(1) If the sum of (x) Estimated Consideration (as determined at Closing) plus (y) the difference of the amount of Transaction Expenses included in the Final Transaction Expenses *minus* the Estimated Transaction Expenses (which difference may be positive or negative) and plus (z) the difference of the amount of the Funded Indebtedness included in the Final Funded Indebtedness minus the Estimated Funded Indebtedness (which difference may be positive of negative), is less than the Transaction Consideration (as adjusted, if at all, under Section 2.4(e)) (with the amount by which such sum is less than such Transaction Consideration being the "Upward Reconciliation Amount"), then the following will occur:

(A) Buyer will pay, or cause to be paid, to the Paying Agent for further distribution to the Closing Payment Recipients in accordance with Section 1.3, an amount equal to the Upward Reconciliation Amount; and

(B) the Parties will cause the Post-Closing Adjustment Escrow Amount to be disbursed under the Escrow Agreement to the Paying Agent for further distribution to the Closing Payment Recipients in accordance with Section 1.3.

(2) If the sum of (x) Estimated Consideration (as determined at Closing) plus (y) the difference of the amount of Transaction Expenses included in the Final Transaction Expenses *minus* the Estimated Transaction Expenses (which difference may be positive or negative) and plus (z) the difference of the amount of the Funded Indebtedness

included in the Final Funded Indebtedness minus the Estimated Funded Indebtedness (which difference may be positive of negative), exceeds the Transaction Consideration (as adjusted, if at all, under Section 2.4(e)) (with the amount by which such sum exceeds such Transaction Consideration being the "Downward Reconciliation Amount"), then the following will occur:

(A) (i) the Parties will cause a disbursement of all or a portion of the Post-Closing Adjustment Escrow Amount to Buyer to the extent necessary to pay the Downward Reconciliation Amount, provided that the sole source of the Downward Reconciliation Amount will be from the Post-Closing Adjustment Escrow Amount and Buyer will have no other recourse if the Downward Reconciliation Amount exceeds the Post-Closing Adjustment Escrow Amount; and

(B) if any portion of the Post-Closing Adjustment Escrow Amount is not disbursed under clause (f)(2)(A) above, then the Parties will cause an amount equal to such undisbursed portion of the Post-Closing Adjustment Escrow Amount to be disbursed under the Escrow Agreement to the Paying Agent for further distribution to the Closing Payment Recipients in accordance with Section 1.3.

(3) If the sum of (x) Estimated Consideration (as determined at Closing) plus (y) the difference of the amount of Transaction Expenses included in the Final Transaction Expenses *minus* the Estimated Transaction Expenses (which difference may be positive or negative), and plus (z) the difference of the amount of the Funded Indebtedness included in the Final Funded Indebtedness minus the Estimated Funded Indebtedness (which difference may be positive of negative), equals the Transaction Consideration (as adjusted, if at all, under Section 2.4(e)), then the Parties will cause an amount equal to the Post-Closing Adjustment Escrow Amount to be disbursed under the Escrow Agreement to Paying Agent for further distribution to the Closing Payment Recipients in accordance with Section 1.3.

(g) **Allocation of Transaction Consideration.** Each Party will allocate the Transaction Consideration in accordance with Exhibit 2.4(g) (including that Buyer will cause each Acquired Company to do so). As soon as reasonably practicable after the Final Net Working Capital and Cash, Final Transaction Expenses and Final Funded Indebtedness becomes final and binding, but in any event within 30 days thereafter, Buyer will deliver to Sellers' Representative a draft allocation of the Transaction Consideration in accordance with Exhibit 2.4(g) (the "Allocation"). Sellers' Representative will have the right to review the Allocation and will notify Buyer in writing of any objections within 20 days after receipt of the Allocation. Buyer and Sellers' Representative will cooperate in good faith to reach agreement on the disputed items or amounts, if any. If Buyer and Sellers' Representative are unable to reach an agreement regarding the Allocation, then within 30 days following receipt by Buyer of Sellers' Representative's written objections, any disagreement will be resolved by the Arbitrator, whose involvement will be limited solely to disputed items. Any Allocation determined pursuant to the decision of the Arbitrator will incorporate, reflect and be consistent with Exhibit 2.4(g). The Allocation, as prepared by Buyer, if no timely written objection by Sellers' Representative has been given, as adjusted pursuant to any agreement between Buyer and Sellers' Representative or as determined by the Arbitrator (the "Final Allocation"), will be final and binding on the Parties. Any fees and expenses of the Arbitrator will be borne by Buyer and Sellers using the same method of allocation and payment described in Section 2.4(d). After Closing, the Parties will, and will cause their respective Affiliates to, make consistent use of the Final Allocation,

as adjusted to reflect any, if any, adjustments to the Transaction Consideration, for all Tax purposes. With respect to such Final Allocation, as so adjusted, each Party will (1) be bound by such allocation, (2) act in accordance with such allocation in the preparation of and the filing of all Tax Returns and in the course of any Tax Proceeding relating thereto, and (3) take no position and cause its Affiliates to take no position inconsistent with such allocation for Tax purposes (including in connection with any Proceeding), unless in each case otherwise required pursuant to a "determination" within the meaning of section 1313(a) of the Code.

ARTICLE 3 - REPRESENTATIONS AND WARRANTIES OF THE TARGET COMPANIES

Except as disclosed in the Target Company Disclosure Schedule and subject to Sections 3.19, 8.1 and 8.3, each Target Company hereby represents and warrants to Buyer as follows in this Article 3:

3.1 **Organization and Good Standing.** Each Acquired Company is a duly organized and validly existing corporation or limited liability company in good standing under the laws of the jurisdiction in which it was organized, each as is listed in Schedule 3.1. Each Acquired Company is duly qualified and in good standing to do business as a foreign corporation in each jurisdiction in which the ownership or leasing of its properties or assets or the conduct of its business requires such qualification, with each such jurisdiction (if any) being listed in Schedule 3.1, except as would not have a Target Company Material Adverse Effect. Each Acquired Company has full power and authority to own and lease its properties and assets and conduct its business as now conducted. Except for an Acquired Company's ownership, directly or indirectly, of another Acquired Company, no Acquired Company holds any equity interest, directly or indirectly, of any other Person. The Target Companies have provided to Buyer a true, correct and complete copy of the Organizational Documents of each Acquired Company. No Acquired Company is in material violation of any provision of any of its Organizational Documents.

3.2 **Capitalization.** Schedule 3.2 lists, as of the Signing Date, (a) all authorized equity interests of each Acquired Company, (b) all issued and outstanding equity interests of each Acquired Company, and (c) the names of the holders of record and beneficial interests and the number of issued and outstanding equity interests of each Acquired Company held by each such holder. Subject to changes to the capitalization of Larson SD and Larson Iowa required by the Restructuring, each Seller has good and valid title to the shares or membership units disclosed on Schedule 3.2 and Schedule 3.2 sets forth all shareholders and members of each Acquired Company as of the Signing Date. All of the issued and outstanding equity interests of each Acquired Company are duly authorized, validly issued, fully paid and non-assessable. No equity interest of any Acquired Company was issued in violation of any Organizational Document of such Acquired Company, any Applicable Law or any pre-emptive right (or other similar right) of any Person. Except for restrictions imposed by securities laws applicable to securities generally and rights of Buyer created hereunder, a Target Company (individually or together with one or more Sellers as set forth on Schedule 3.2), directly or indirectly, has good and valid title to all outstanding shares of capital stock of the Company Subsidiaries, in each case free and clear of any Encumbrance. Except for rights of Buyer created hereunder, none of the following exists as a result of any grant, award or other action by any Acquired Company: (1) option, warrant, put, call, purchase right, subscription right, conversion right, convertible instrument, exchange right or other security, Contract or commitment of any nature whereby any Person has, or has a right to receive, any equity interest of, or right or obligation to acquire any equity interest of, any Acquired Company; (2) equity appreciation, phantom stock, profit participation or similar right with respect to any Acquired Company; or (3) voting trust, proxy or other Contract with respect to any equity interest of any Acquired Company (other than as is contemplated under Section 9.14).

3.3 **Authority and Authorization; Conflicts; Consents.**

(a) **Authority and Authorization.** The execution, delivery and performance of this Agreement and each applicable Transaction Document by any Larson Party have been duly authorized and approved by all necessary action with respect to each such Larson Party, and each such authorization and approval remains in full force and effect. This Agreement has been, and each of the Transaction Documents of each Larson Party will be at or prior to the Closing, duly and validly executed and delivered by each applicable Larson Party and, assuming due authorization, execution and delivery by Buyer and its applicable Affiliates of this Agreement and each applicable Transaction Document of Buyer or any of its Affiliates, this Agreement is, and each Transaction Document of any Larson Party at Closing will be, the legal, valid and binding obligation of each applicable Larson Party , enforceable against each applicable Larson Party in accordance with its terms, except to the extent enforceability may be limited by any Enforcement Limitation. Each Larson Party has all requisite power and authority to enter into this Agreement and each Transaction Document to be executed and delivered by such Larson Party and to consummate the transactions contemplated herein and therein to be consummated by each such Larson Party.

(b) **Conflicts.** None of the execution or delivery by any Larson Party of this Agreement or any Transaction Document, the consummation by any Larson Party of the transactions contemplated herein or therein, or compliance by any Larson Party with any of the provisions hereof or thereof does or will (with or without the passage of time or giving of notice): (1) constitute a breach of, violate, conflict with or give rise to or create any right or obligation under any Organizational Document of any Larson Party; (2) violate any Applicable Law, order or injunction with respect to any such Person; or (3) constitute a breach or violation of or a default under, conflict with or give rise to or create any right of any Person other than any Acquired Company to accelerate, increase, terminate, modify or cancel any right or obligation in a manner materially adverse to any Acquired Company or result in the creation of any Encumbrance, other than a Permitted Encumbrance, under, any material Contract or material Permit to which any Acquired Company is a party or by which any asset of any Acquired Company is bound or against any asset of any Acquired Company, except where such breach, violation, default, conflict or right described in clause (b)(2) or (b)(3) above has not had a Target Company Material Adverse Effect and will not materially and adversely affect any Larson Party's ability to consummate the transactions contemplated herein.

(c) **Consents.** No consent or approval by, notification to or filing with any Person is required with respect to any Target Company's execution, delivery or performance of this Agreement or any Transaction Document of any Target Company or any Target Company's consummation of the transactions contemplated herein or therein, in each case except (1) the filing of the articles of merger in accordance with the Restructuring, (2) as required by the HSR Act, (3) with respect to any Contract not required to be disclosed in the Target Company Disclosure Schedule to avoid a breach of Section 3.8, or (3) with respect to any item listed in Schedule 3.3(c).

3.4 **Financial Statements and Undisclosed Liabilities.**

(a) **Financial Statements Defined.** Schedule 3.4(a) contains a true, correct and complete copy of the following:

(1) the (A) audited consolidated balance sheet of the Acquired Companies as of each of December 31, 2018 and December 31, 2019; (B) audited consolidated statements of income and cash flows of the Acquired Companies for the fiscal

year ended on each of December 31, 2018 and December 31, 2019; and (C) notes to the foregoing and the reports thereon of the Acquired Companies' independent auditors (collectively, the "Annual Financial Statements"); and

(2) the unaudited (A) consolidated balance sheet of the Acquired Companies as of September 30, 2020 (such date is the "Interim Balance Sheet Date" and such balance sheet is the "Interim Balance Sheet"); and (B) consolidated income statement of the Acquired Companies for the nine-fiscal-month periods ended on the Interim Balance Sheet Date (collectively, the "Interim Financial Statements" and, together with the Annual Financial Statements, the "Financial Statements).

(b) **Financial Statements.** Except as listed in the notes to the Annual Financial Statements, the Financial Statements (1) were prepared in accordance with GAAP, (2) are consistent with the books and records of the Acquired Companies in all material respects and (3) present fairly, in all material respects, the assets, liabilities and financial condition of the Acquired Companies at their respective dates and the results of operations and cash flows of the Acquired Companies for the respective periods covered thereby, in each case except that the Interim Financial Statements are subject to normal year-end adjustments consistent with the applicable Acquired Company's past practices and do not have notes included therewith. The Interim Financial Statements do not include any accrued liability for charitable contributions.

(c) **Undisclosed Liabilities.** The Acquired Companies, taken as a whole, do not have any liabilities, obligations or commitments of a type required to be reflected on a balance sheet (or the notes thereto) prepared in accordance with GAAP, except for liabilities, obligations or commitments (1) disclosed in, provided for, adequately reflected in, reserved against or otherwise described in the Interim Balance Sheet (including in any note thereto) or that are or will be included in the calculations regarding the Transaction Consideration adjustment under Section 2.4, (2) under any Contract or under any Target Company Plan, (3) that have arisen in the Ordinary Course of Business of an Acquired Company since the Interim Balance Sheet Date (none of which will result from or relate to any breach of Contract, breach of warranty, tort, infringement or violation of Applicable Law), (4) under this Agreement or otherwise in connection with the transactions contemplated herein or (5) that are otherwise disclosed in this Agreement (including the Target Company Disclosure Schedule).

3.5 **Taxes.**

(a) All Income Tax and all other material Tax Returns that were required to be filed by, on behalf of or with respect to any Acquired Company were timely filed on or before the applicable due date (taking into account any extension of such due date) and were true, complete and accurate in all material respects, were prepared in compliance with Applicable Law. All Income Taxes and all other material Taxes due and owing by or with respect to any Acquired Company with respect to any Pre-Closing Tax Period (whether or not shown as due on any Tax Return) were paid when due, or, in the case of Taxes not yet due, will be paid in full when due (if before Closing), except to the extent taken into account in determining Final Net Working Capital and Cash. Each of the Acquired Companies has provided Buyer with complete copies of all Tax Returns filed by the Acquired Companies for the taxable years beginning after January 1, 2017.

(b) No written claim has ever been made by a Governmental Authority in a jurisdiction where an Acquired Company does not currently file a Tax Return that such Acquired Company is or may be subject to taxation by such jurisdiction.

(c) All Taxes that any Acquired Company is or was required to withhold in connection with any amount paid or owing to any employee, independent contractor, shareholder, nonresident, creditor or other Person have been duly withheld or collected and have been paid, to the extent due and owing, to the proper Governmental Authority.

(d) On the Signing Date, there is no Tax Proceeding pending or, to any Acquired Company's Knowledge, Threatened against or otherwise with respect to any Acquired Company. There are no requests for a ruling or determination in respect of any Tax pending between any Acquired Company and any Governmental Authority.

(e) No Acquired Company has executed any outstanding waiver of any statute of limitations for, or extension of, the period for the assessment or collection of any material Tax, in each case, which period has not yet expired, other than extensions for filing Tax Returns automatically granted.

(f) No Acquired Company or any predecessor thereof has been a member of a group (including an Affiliated Group) with which it has filed or been included in a combined, consolidated or unitary Income Tax Return, other than the group in which it is currently a member. No Acquired Company has been a party to or bound by any Tax indemnity agreement, Tax sharing agreement, Tax allocation agreement or similar Contract, other than with respect to such group in which it is currently a member. No Acquired Company or any predecessor thereof is liable for any Tax of any taxpayer other than an Acquired Company under Treasury Regulations section 1.1502-6 (or any similar provision of any Applicable Law), as a transferee or successor, by Contract or otherwise, for any Taxable period beginning before the Closing Date, other than with respect to such group in which such Acquired Company is currently a member.

(g) No Acquired Company is a "distributing corporation" or a "controlled corporation" as such terms are defined under section 355 of the Code.

(h) No Acquired Company has entered into any "reportable transaction" (as defined in Treasury Regulation Section 1.6011-4(b) or equivalent provision under state, local, or foreign law).

(i) Larson SD has been a validly electing S corporation within the meaning of sections 1361 and 1362 of the Code at all times since January 1, 1987, except for any change in such status that will occur as a result of the Restructuring. Larson Iowa has been a validly electing S corporation within the meaning of sections 1361 and 1362 of the Code at all times since January 1, 1982, except for any change in such status that will occur as a result of the Restructuring. Larson SD and Larson Iowa have each made valid elections to be Taxed in a comparable fashion under comparable state, local or non-U.S. Applicable Law, for the Taxable periods and in the Taxing jurisdictions listed in Schedule 3.5(i); except for any change in such status that will occur as a result of the Restructuring.

(j) AEI is (and has been for its entire existence) classified as a partnership for all U.S. federal and applicable state and local income Tax purposes and no election has been made (or is pending) to change such treatment.

(k) Comfort Bilt is classified as a partnership for all U.S. federal and applicable state and local income Tax purposes and no election has been made (or is pending) to change such treatment (except a result of the Restructuring). Comfort Bilt will be classified as a "disregarded entity" within the meaning of section 301.7701-3(a) of the Treasury Regulations at the Closing.

(l) Schedule 3.5(l) lists each Acquired Company that is a "qualified subchapter S subsidiary" within the meaning of section 1361(b)(3)(B) of the Code, and each Acquired Company so listed has been such a qualified subchapter S subsidiary at all times since the corresponding date listed in Schedule 3.5(l), in each case except for any change in such status that occurs as a result of the Restructuring or Closing.

(m) Schedule 3.5(m) lists each Acquired Company that is a "disregarded entity" within the meaning of section 301.7701-3(a) of the Treasury Regulations, and each Acquired Company so listed has been such a disregarded entity at all times since the corresponding date listed in Schedule 3.5(m), in each case except for any change in such status that occurs as a result of the Closing.

(n) None of the Sellers is a "foreign person" within the meaning of Section 1445(f)(3) of the Code. None of the Acquired Companies is, or has been during the five year period preceding the date of this Agreement, a United States real property holding company as such term is defined in Section 897 of the Code (or the corresponding provisions of state, local, or foreign Tax law).

(o) There are no Encumbrances for Taxes (other than Permitted Encumbrances) upon any of the assets of any of the Acquired Companies.

(p) No Acquired Company is a party to any agreement, contract or arrangement that could result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code in respect of the transactions contemplated by this Agreement. No Acquired Company has any obligation to "gross up" any person for excise taxes under Section 4999 of the Code.

3.6 **Litigation, Orders and Injunctions.** On the Signing Date, (a) there is no material Proceeding pending or, to any Acquired Company's Knowledge, Threatened against any Acquired Company, and (b) no Acquired Company is specifically identified as a party that is subject to any material restriction or limitation on any of its operations under any order or injunction of any Governmental Authority.

3.7 **Compliance with Law.**

(a) Except where the reason for which has been corrected and the remedy for which has been fully satisfied, (1) each Acquired Company is in compliance in all material respects with all Applicable Laws and (2) no written notice has been received by any Acquired Company since January 1, 2019 from any Governmental Authority alleging that any Acquired Company or any of their respective assets is not or was not in compliance in any material respect with any Applicable Law.

(b) The Acquired Companies currently have all material Permits required for the operation of their respective businesses as presently conducted and each of the Acquired Companies is in compliance with the terms of material Permits to which it is a party. There is not now pending or Threatened any Proceeding by or before any Governmental Authority to revoke, cancel, rescind, modify, or refuse to renew any of such Permits.

3.8 **Contracts.**

(a) Schedule 3.8(a) lists, as of Signing Date, the following Contracts to which any Acquired Company is a party or by which any of its assets is bound, other than Contracts that are listed as Retained Assets in Schedule 5.2(b)(4) (each a "Major Contract") and, to the extent that a Major Contract is oral, such Schedule contains an accurate summary of the material terms thereof:

(1) each employment agreement (other than (A) any such employment agreement that is or on the Closing Date will be terminable at will by any Acquired Company without any obligation of any Acquired Company, except any obligation with respect to events before the termination thereof or (B) any agreement with any employee addressing non-disclosure of confidential information, assignment of Intellectual Property, non-solicitation or non-competition entered into in the Ordinary Course of Business of an Acquired Company);

(2) each covenant not to compete that restricts in any material respect the operation of the business of any Acquired Company;

(3) each operating lease (as lessor or lessee) of tangible personal property (other than any such lease that contemplates aggregate payments of less than $1,000,000 per year);

(4) each Contract to pay or receive any royalty or license fee or to license (either as licensor or licensee) any material Intellectual Property (other than any (A) license for Intellectual Property embedded in any equipment or fixture, (B) non-exclusive implied license of Intellectual Property, or (C) non-exclusive license for the use of any commercially available off-the-shelf software);

(5) each Contract regarding any management service or consulting or other similar type of Contract (other than any such Contract that is or on the Closing Date will be terminable at will or upon not more than 90 days' notice by any Acquired Company without any obligation of any Acquired Company, except any obligation with respect to events before the termination thereof);

(6) each Contract for the purchase by any Acquired Company of any supply, manufacturing, distribution, advertising or promotion of products or services (other than any such Contract that (A) is or on the Closing Date will be terminable at will or upon not more than 90 days' notice by any Acquired Company without any obligation of any Acquired Company, except any obligation with respect to events before the termination thereof, (B) contemplates aggregate payments of less than $1,000,000 per year, or (C) is a purchase order executed in the Ordinary Course of Business of the Acquired Companies);

(7) each mortgage agreement, deed of trust, security agreement, purchase money agreement, conditional sales contract, capital lease or other similar Contract created or assumed by, or permitted to be created by written document made or accepted by, any Acquired

Company (other than any (A) purchase money agreement, conditional sales contract, capital lease or other similar Contract evidencing any Encumbrance only on tangible personal property, under which there exists under such item aggregate future payments of less than $1,000,000 per year, (B) protective filing of any financing statement under the Uniform Commercial Code or (C) item creating or otherwise providing for any Encumbrance on real property that is shown on a title commitment or title insurance provided to Buyer);

(8) each Contract under which any Acquired Company is obligated to repay or has guaranteed any outstanding Indebtedness or remains obligated to lend to any other Person, other than another Acquired Company;

(9) each Contract under which any Acquired Company has advanced or loaned any other Person any amount that remains outstanding (other than any amount advanced or loaned to (A) another Acquired Company or (B) an employee of an Acquired Company);

(10) each outstanding power of attorney with respect to any Acquired Company (other than those entered into in its Ordinary Course of Business in connection with any Intellectual Property or Tax matter);

(11) each Real Property Lease;

(12) each partnership, joint venture or similar Contract;

(13) each Contract, other than any Contract of a nature described in clause (a)(1) or (a)(5) above, with (A) any Seller or Affiliate of a Target Company, other than another Acquired Company, or (B) any officer or director of any Acquired Company;

(14) each Contract for the sale of any product or service offered by any Acquired Company (other than any such Contract that (A) is or on the Closing Date will be terminable at will or upon not more than 90 days' notice by any Acquired Company without any obligation of any Acquired Company, except any obligation with respect to products or services ordered before the termination thereof, (B) contemplates aggregate payments less than $1,000,000 per year, or (C) is a purchase order executed in the Ordinary Course of Business of the Acquired Companies); or

(15) each Contract containing any form of most favored pricing provision in favor of any customer of any Acquired Company.

(b) The Target Companies have provided to Buyer a true, correct and complete copy of each Major Contract (or, to the extent that a Major Contract is oral, an accurate summary of the material terms thereof). With respect to each Major Contract: (1) such Major Contract is legal, valid and binding, in full force and effect and enforceable (except to the extent enforceability may be limited by any Enforcement Limitation) in accordance with its terms against the Acquired Company that is a party thereto or whose assets are bound thereby and, to any Acquired Company's Knowledge, against each other party thereto, (2) such Acquired Company is not and, to any Acquired Company's Knowledge, no other party thereto is in material breach of or material default under such Major Contract and no party thereto has given to any other party thereto written notice alleging that such a breach or default occurred, and (3) no event has occurred that (with or without the passage of

time or giving of notice) would constitute a material breach or material default of, or permit any early termination, modification, acceleration or cancellation of, such Major Contract.

Notwithstanding the foregoing, without limiting any terms or provisions therein, any Contracts entered into on the date hereof in connection with the transactions contemplated hereby among (i) any Acquired Company, (ii) one or more Sellers and (iii) Buyer or any of its Affiliates, shall be excluded from the scope of the representations and warranties contained in this Section 3.8.

3.9 **Certain Assets.** Each Acquired Company has good title to, or a valid leasehold interest in or valid license for, each material tangible asset that is personal property used by it in the operation of its business or shown on the Interim Balance Sheet, free and clear of any Encumbrance other than any Permitted Encumbrance, except for any asset disposed of in its Ordinary Course of Business since the Interim Balance Sheet Date.

3.10 **Real Property.**

(a) Schedule 3.10(a) sets forth (by street address) a true, complete and correct list of (1) all real property that is owned in fee by any Acquired Company (each "Owned Real Property"); and (2) all real property that is leased or occupied by any Acquired Company (each being "Leased Real Property," and any Contract governing such lease or occupancy being a "Real Property Lease"). The Owned Real Property and the Leased Real Property are, collectively, the "Real Property."

(b) All of the land, buildings, structures and other improvements used by any Acquired Company in the conduct of the Business are included in the Real Property. Except for the Real Property Leases, there is no lease (including sublease) or occupancy agreement in effect with respect to any Owned Real Property or Leased Real Property.

(c) No Acquired Company is in material breach under any Real Property Lease and, to any Acquired Company's Knowledge, no other party is in material breach thereof. The Target Companies have provided to Buyer a true, correct and complete copy of each Real Property Lease.

(d) To each Acquired Company's Knowledge, there are no pending or Threatened condemnation or eminent domain actions affecting the Real Property.

(e) No Acquired Company has received any written notice alleging that it lacks or is in violation of any material Permits required for the use and operation of any Real Property.

(f) To any Acquired Company's Knowledge, there are (1) no uncured material violation of any Applicable Law affecting any Real Property or portion thereof, or (2) no existing, pending or Threatened material zoning, building code or moratorium proceedings that could reasonably be expected to materially and adversely affect the ability to operate any Real Property.

(g) The Target Companies have provided to Buyer true, correct and complete copies of all ALTA land title surveys and all title insurance commitments and policies issued to any Acquired Company and covering the Owned Real Property that on the Signing Date are in any Acquired Company's possession or control.

3.11 **Environmental Matters.**

(a) The Target Companies have provided to Buyer a true, correct and complete copy of all Phase I and Phase II environmental site assessments with respect to any of the Real Property that on the Signing Date are in any Acquired Company's possession or control.

(b) One or more of the Acquired Companies has obtained all material Permits that are required under any Environmental Law, except for any failure to do so that has not had a Target Company Material Adverse Effect. To any Acquired Company's Knowledge, each Acquired Company is in compliance with all Environmental Laws and the terms and conditions of all material Permits issued pursuant to any Environmental Law.

(c) There is no Environmental Claim pending or, to any Acquired Company's Knowledge, Threatened as of the Signing Date against any Acquired Company that, if decided adversely to such Acquired Company, would have a Target Company Material Adverse Effect and none of the Acquired Companies is named in any CERCLA (Superfund) action.

(d) To any Acquired Company's Knowledge, no Acquired Company has released any Hazardous Substance into the environment on or from any of the Real Property in such form or amount so as to require remediation by any of the Acquired Companies under applicable Environmental Law, except for any such releases that would not have a Target Company Material Adverse Effect.

3.12 **Intellectual Property.**

(a) Schedule 3.12(a) lists all Intellectual Property owned by an Acquired Company that is registered with any Governmental Authority (or with any Person that maintains domain name registrations) and all applications for any such registration.

(b) Each Acquired Company, as applicable, owns (free and clear of all Encumbrances, other than any Permitted Encumbrance) all of the Intellectual Property so listed on Schedule 3.12(a) and all other Intellectual Property purported to be owned by such Acquired Company. Each Acquired Company also has the right to use, either through its ownership or pursuant to a license or other contractual right all Intellectual Property used in its business. To any Acquired Company's Knowledge, (i) all of the Intellectual Property owned by an Acquired Company listed on Schedule 3.12(a) is valid and enforceable; and (ii) each item of Intellectual Property owned or used by any Acquired Company immediately prior to the Closing Date will continue to be available for use by the applicable Acquired Company or Buyer on substantially similar terms and conditions immediately subsequent the Closing Date.

(c) In the past 12 months, no Acquired Company has received written notice that any such registered Intellectual Property listed on Schedule 3.12(a) owned by any Acquired Company has been declared unenforceable or otherwise invalid by any Governmental Authority and, to the Acquired Company's Knowledge, there is no reasonable basis for any such declaration.

(d) Except for any claim, dispute or challenge that was subsequently resolved, no Acquired Company has received any written charge, complaint, claim, demand or notice in the past 12 months, alleging that any use, sale or offer to sell any good or service of any Acquired Company infringes upon, misappropriates or violates any Intellectual Property right of any other Person.

(e) To any Acquired Company's Knowledge, (i) no Acquired Company is infringing upon, misappropriating or violating the Intellectual Property of any other Person in any material respect, and (ii) no other Person is infringing upon, misappropriating or violating the Intellectual Property owned by any Acquired Company in any material respect.

(f) Each Acquired Company has used commercially reasonable efforts to maintain its material trade secrets in confidence, including using commercially reasonable efforts to enter into licenses and contracts which require employees, licensees, contractors and all other third persons with access to such trade secrets to keep such trade secrets confidential.

(g) There are no material licenses, agreements or other payment obligations relating to the Intellectual Property used in the business of the Acquired Companies other than as disclosed in the Target Company Disclosure Schedules. To the Knowledge of the Acquired Companies, all such material licenses, agreements and payment obligation are valid and enforceable and have no outstanding threatened claims against them except to the extent disclosed in the Target Company Disclosure Schedules.

3.13 **Insurance.** Schedule 3.13 lists each insurance policy in force on the Signing Date that is maintained by or covers any Acquired Company, any Real Property or any material aspect of the Business, other than for any Target Company Plan. The Target Companies have provided to Buyer a true, correct and complete copy of each such insurance policy.

3.14 **Absence of Certain Events.**

(a) Since the Interim Balance Sheet Date, there has not been any Event that has had a Target Company Material Adverse Effect.

(b) Except as otherwise expressly contemplated herein, since the Interim Balance Sheet Date to the Signing Date, no Acquired Company has done any of the following:

(1) (A) issued or otherwise allowed to become outstanding or acquired or pledged or otherwise encumbered any equity interest or other security of an Acquired Company or right (including any option, warrant, put, call, subscription, equity appreciation or commitment) to any such equity interest or other security (other than as may arise by the terms of this Agreement), (B) split, combined, recapitalized or reclassified any of its equity interests or issued or authorized the issuance of any other security in respect of, in lieu of or in substitution for any of its equity interests or other securities or made any other change to its capital structure, (C) purchased, redeemed or otherwise acquired any equity interest or any other security of such Acquired Company or of any other Acquired Company or any right, warrant or option to acquire any such equity interest or other security or (D) other than dividends payable solely in cash, declared, set aside, paid or made any dividend or other distribution payable in equity or property;

(2) (A) except for sales of inventory in its Ordinary Course of Business, made any sale, lease to any other Person, license to any other Person or other disposition of any material asset, whether tangible or intangible, (B) failed to preserve and maintain all of the Real Property in substantially the same condition as existed on the Interim Balance Sheet Date, ordinary wear and tear excepted, (C) demolished or erected any structure on any of the Real Property, (D) made any capital expenditure or purchased or otherwise acquired any

material asset (other than purchases of inventory in its Ordinary Course of Business and other than capital expenditures that do not exceed $1,000,000 (individually or in the aggregate)), entered into a new lease for any real property from any other Person or entered into a new lease for any tangible personal property from any other Person, except leases of tangible personal property in its Ordinary Course of Business, (E) acquired by merging with, or by purchasing a substantial portion of the stock or assets of, or by any other manner, any business or any Person or division thereof, or (F) adopted a plan of liquidation, dissolution, merger, consolidation, statutory share exchange, restructuring, recapitalization or reorganization;

(3) granted or had come into existence any material Encumbrance on any asset, other than (A) with respect to a Major Contract listed in Schedule 3.8(a) (or a Contract not required to be disclosed in Schedule 3.8(a) to avoid a breach of Section 3.8), (B) any Permitted Encumbrance or (3) in its Ordinary Course of Business;

(4) (A) became a guarantor with respect to, assumed or otherwise became obligated for any obligation of any other Person, other than any other Acquired Company or warranties, guarantees or indemnity obligations entered into or provided to customers in its Ordinary Course of Business, or (B) agreed to maintain the financial condition of any other Person, other than any other Acquired Company;

(5) incurred any Indebtedness for borrowed money (other than Indebtedness (A) to any other Acquired Company or (B) incurred under the Acquired Companies' revolving credit facility in the Ordinary Course of Business of the Acquired Companies; and, for the avoidance of doubt, the need to have or put in place, or collateralize, any letter of credit is not itself considered Indebtedness for borrowed money under this clause) that will not be satisfied at or before Closing or made any loan, advance or capital contribution to any other Person (other than any loan, advance or capital contribution to another Acquired Company or loan or advance to an employee of an Acquired Company, in each case in the Ordinary Course of Business of such Acquired Company);

(6) failed to prepare and timely file all Tax Returns with respect to such Acquired Company required to be filed during such period or timely withhold and remit any employment Taxes with respect to such Acquired Company (taking into account any proper extension);

(7) made or changed any Tax election, filed any amended Tax Return, entered into any closing agreement, settled any material Tax claim or assessment relating to any Acquired Company, surrendered any right to claim a refund of Taxes, incurred any liability for Taxes outside the ordinary course of business, failed to pay any Tax that becomes due and payable (including any estimated Tax payments), prepared or file any Tax Return in a manner inconsistent with past practice, taken any other similar action relating to the filing of any Tax Return or the payment of any Tax, or adopted or changed any Tax accounting method;

(8) (A) adopted or changed any material accounting method or principle used by such Acquired Company, except as required under GAAP or the Code or (B) changed any annual accounting period;

(9) except for changes in its Ordinary Course of Business, as required by Applicable Law or as accrued for by the Acquired Companies in the Financial Statements, (A) adopted, entered into, amended or terminated any bonus, profit sharing, compensation, severance, termination, pension, retirement, deferred compensation, trust, fund or other arrangement or other Plan for the benefit or welfare of any individual, or (B) entered into or amended any collective bargaining agreement;

(10) amended or changed, or authorized any amendment or change to, any of its Organizational Documents; or

(11) committed or agreed to do any of the foregoing.

3.15 **Employee Benefits.**

(a) **Plans.** Schedule 3.15(a) lists all Target Company Plans.

(b) **Disclosure.** To the extent applicable with respect to each Target Company Plan, complete copies of the most recent documents described below have been delivered to Buyer: (1) IRS determination letter; (2) Form 5500 and attachments; (3) all plan documents and amendments; and (4) summary plan descriptions and any summaries of material modifications.

(c) **Compliance with Applicable Law.** Each Target Company Plan complies with and has been administered and maintained in material compliance with its terms and Applicable Law. With respect to each Target Company Plan, no non-exempt prohibited transactions (as defined in ERISA Section 406 or Code Section 4975) have occurred. Each Target Company Plan that is a "nonqualified deferred compensation plan" subject to Section 409A of the Code complies in all material respects with the requirements of Sections 409A(a)(2), (3) and (4) of the Code and any IRS guidance issued thereunder. No Target Company has any obligation to "gross-up" any taxes under Section 409A of the Code.

(d) **Claims/Liability.** Other than routine claims for benefits, no Target Company Plan is subject to any pending or threatened action, investigation, examination, claim or any other proceeding initiated by any Governmental Authority or other Person, and to the Knowledge of any Acquired Company, no facts exist that would give rise thereto.

(e) **Qualified Retirement Plans.** Each Target Company Plan that is intended to be qualified under section 401 of the Code has received a favorable determination, opinion, or advisory letter from the IRS on its qualified status, and each trust related to such Target Company Plans intended to be qualified under section 501 of the Code is in fact qualified, and no event has occurred to the Knowledge of any Acquired Company to cause the loss of such Target Company Plans' or trusts' qualification.

(f) **Title IV and Multiemployer Plans.** Within the past six (6) years, no Acquired Company, nor any ERISA Affiliate, sponsors, contributes to, or had any obligation to maintain or contribute to (a)any Title IV Plan (any Plan subject to Title IV of ERISA) or (b) any multiemployer plan (as defined in ERISA Section 3(37) or 4001(a)(3)).

(g) **Retiree Welfare.** Except as disclosed in the Target Company Disclosure Schedules, no Target Company has any liability or obligation to provide life, medical or other welfare benefits to former or retired employees of Acquired Companies, other than as is required by COBRA or similar provision of applicable state law.

(h) **No Triggering of Obligations.** The consummation of the transactions contemplated by this Agreement will not entitle any current or former Acquired Company employee to severance pay or a change in control payment, or accelerate the time of payment or vesting, or increase the amount of any compensation due to any current or former Acquired Company employee.

3.16 **Employees and Labor Relations.**

(a) With respect to each Acquired Company: (1) there is no collective bargaining agreement or relationship with any labor organization; (2) no labor organization or group of employees has filed any representation petition or made any written or oral demand for recognition; (3) to any Acquired Company's Knowledge, no union organizing or decertification effort exists or has occurred since January 1, 2019 or, to any Acquired Company's Knowledge, is Threatened; and (4) no labor strike, work stoppage, picketing, slowdown or other material labor dispute has occurred since January 1, 2019 or, to any Acquired Company's Knowledge, is Threatened.

(b) To any Acquired Company's Knowledge, each Acquired Company is in compliance in all material respects with all Applicable Laws related to employment, including with respect to wages or salary, overtime pay, working conditions, and equal employment opportunity.

(c) To any Acquired Company's Knowledge, no claim has been made that remains outstanding for breach of any contract of employment or for services; nor are the Acquired Companies aware that any such claim has been threatened or is pending.

(d) Throughout the past three years, no Acquired Company has implemented any plant closing or layoff of employees governed by the WARN Act or any similar Applicable Law.

(e) A list of all employees to whom any Acquired Company has made any loan or advance, which includes the amount of each such loan or advance and the date on which it was made, together with the terms of such loans (including maximum borrowings and minimum monthly payments), is set forth on Schedule 3.16(e).

3.17 **Brokers.** No Acquired Company has any obligation to any broker, finder or similar intermediary in connection with the transactions contemplated by this Agreement that would cause Buyer or any Acquired Company to become obligated for payment of any commission, fee or expense with respect to such transactions, except for Etkin & Company, Incorporated (and all such amounts, to the extent unpaid as of Closing, shall be a Transaction Expense).

3.18 **Related Party Transactions.** Except as set forth in Schedule 3.18, none of the Acquired Companies is a party to any agreement or transaction with any of the Sellers other than agreements or transactions with respect to amounts owed to the Acquired Companies as disclosed in Schedule 3.16(e) or in connection with their employment relationship or board membership (or similar capacity) with the Acquired Companies.

3.19 **Certain Exclusivity.** Notwithstanding any other term of this Agreement, all of the representations and warranties of the Target Companies in this Agreement that relate to any (a) Tax are only contained in Section 3.5, 3.14(b)(6) or 3.14(b)(7), (b) Environmental Law are only contained in Section 3.11, (c) physical condition of any tangible asset are only contained in Section 3.9, 3.10 or 3.11, or (d) Target Company Plan or other employee benefit matter (including under or relating to ERISA) are only contained in Section 3.14(b)(9), 3.15 or 3.16, in each case which, for the avoidance of doubt, are qualified by any applicable item in the Target Company Disclosure Schedule, and in each case notwithstanding any other representation or warranty in this Agreement that, in the absence of this Section, may otherwise appear to apply to any of the foregoing.

ARTICLE 4 - REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrant to the Target Companies as follows in this Article 4:

4.1 **Organization and Good Standing.** Buyer is a duly incorporated and validly existing corporation in good standing under the laws of Delaware. Buyer is duly qualified and in good standing to do business as a foreign corporation in each jurisdiction in which the ownership or leasing of its properties or assets or the conduct of its business requires such qualification. Buyer has full corporate power and authority to own and lease its properties and assets and conduct its business as now conducted. Buyer is not in material violation of any provision of any of its Organizational Documents.

4.2 **Authority and Authorization; Conflicts; Consents.**

(a) **Authority and Authorization.** The execution, delivery and performance of this Agreement and each applicable Transaction Document by Buyer or any of its Affiliates have been duly authorized and approved by all necessary corporate action with respect to Buyer and each such Affiliate of Buyer, and each such authorization and approval remains in full force and effect. This Agreement has been, and each of the Transaction Documents of Buyer will be at or prior to the Closing, duly and validly executed and delivered by Buyer and, assuming due authorization, execution and delivery by each Larson Party of this Agreement and each applicable Transaction Document of each Target Company, this Agreement is, and each Transaction Document of Buyer or any of its Affiliates at Closing will be, the legal, valid and binding obligation of Buyer and each such Affiliate of Buyer, enforceable against Buyer and each such Affiliate of Buyer in accordance with its terms, except to the extent enforceability may be limited by any Enforcement Limitation. Buyer and each such Affiliate of Buyer has all requisite corporate power and authority to enter into this Agreement and each Transaction Document to be executed and delivered by Buyer or such Affiliate of Buyer and to consummate the transactions contemplated herein and therein to be consummated by Buyer and each such Affiliate of Buyer.

(b) **Conflicts.** None of the execution or delivery by Buyer of this Agreement or by Buyer or any Affiliate of Buyer of any Transaction Document, the consummation by Buyer or any Affiliate of Buyer of the transactions contemplated herein or therein, or compliance by Buyer with any of the provisions hereof or thereof does or will (with or without the passage of time or giving of notice): (1) constitute a breach of, violate, conflict with or give rise to or create any right or obligation under any Organizational Document of such Person; (2) violate any Applicable Law, order or injunction with respect to any such Person; or (3) constitute a breach or violation of or a default under, conflict with or give rise to or create any right of any Person other than Buyer to accelerate, increase, terminate, modify or cancel any right or obligation in a manner materially adverse to any

Seller or any Acquired Company, except where such breach, violation, default, conflict or right described in clause (b)(2) or (b)(3) above will not materially and adversely affect Buyer's ability to consummate the transactions contemplated herein.

(c) **Consents.** No consent or approval by, notification to or filing with any Person is required in connection with Buyer's execution, delivery or performance of this Agreement or any Transaction Document of Buyer or any Affiliate of Buyer or Buyer's or any such Affiliate's consummation of the transactions contemplated herein or therein, except (1) as required by the HSR Act, or (2) for any consents, approvals, notices or filings, the absence of which, individually or in the aggregate, will not materially and adversely affect Buyer's ability to consummate the transactions contemplated herein or therein.

4.3 **Litigation, Orders and Injunctions.** There is no material Proceeding pending or, to Buyer's Knowledge, Threatened against Buyer or any of its subsidiaries or their assets, and none of Buyer or any of its subsidiaries is a party or subject to any material restriction or limitation on any of its operations under any order or injunction of any Governmental Authority, except, in each case, as would not adversely affect Buyer's ability to consummate the transactions contemplated herein.

4.4 **Availability of Funds.** Buyer has available cash or existing available borrowing capacity under committed borrowing facilities on the Signing Date, and Buyer will have available cash at Closing, in each case that is sufficient to enable Buyer to consummate the transactions contemplated herein. Buyer's obligations hereunder are not contingent upon procuring any financing.

4.5 **Buyer's Independent Investigation.** Buyer represents, warrants and acknowledges that (i) it and its representatives have undertaken an independent investigation, examination, analysis and verification of each Acquired Company and the Business and the assets, liabilities, operations, financial results and prospects of each Acquired Company, including Buyer's own estimate of the value of the Acquired Companies (ii) it has had the opportunity to ask questions of, and has received sufficient answers from, the Acquired Companies, the Sellers and their respective representatives, with respect to the Business and the assets, liabilities, operations, financial results, and prospects of each Acquired Company, (iii) all materials and information requested by Buyer have been provided to Buyer to their reasonable satisfaction, and (iv) it has undertaken such due diligence (including a review of the assets, liabilities, books, records and contracts of each Acquired Company) as each of them deems adequate. Buyer has not relied upon, and each expressly waives and releases the Sellers (including for any payment out of the Post-Closing Adjustment Escrow Amount) from any liability for any rights, claims or cause of action relating to or arising from, the accuracy, completeness or materiality of any representation, warranty, statement, advice, document, projection, data, information or other materials (written or oral) of any type provided, furnished or made available by or on behalf of the Sellers, any Acquired Company, or their Affiliates or any of their representatives, except for those representations and warranties expressly set forth in Article 3. In connection with such investigation, Buyer and their representatives have received from or on behalf of the Sellers or the Acquired Companies certain estimates, budgets, forecasts, plans and financial projections ("Forward-Looking Statements"), and Buyer acknowledges that (x) there are uncertainties inherent in making Forward-Looking Statements, (y) it is familiar with such uncertainties and it is taking full responsibility for making its own evaluation of the adequacy and accuracy of all Forward-Looking Statements, and (z) except for those representations and warranties expressly set forth in Article 3, none of the Sellers, the Acquired Companies, or any other Person is making any representation or

warranty with respect to, or will have or be subject to any liability to Buyer or any other Person resulting from, the distribution to Buyer or their use of, Forward-Looking Statements.

4.6 **Brokers.** Buyer does not have any obligation to any broker, finder or similar intermediary regarding the sale and purchase of the Larson SD Units, Larson Iowa Units, Comfort Bilt Units, or AEI Units hereunder that would cause any Seller to become obligated for payment of any fee or expense with respect to such transactions.

ARTICLE 5 - CERTAIN COVENANTS

5.1 **Certain Actions to Close Transactions.** Subject to the terms of this Agreement, each Party (other than the Sellers' Representative) will use its reasonable best efforts (except, where this Agreement specifically identifies a different efforts standard, such other standard shall apply) to promptly fulfill, and to cause to be promptly satisfied, the conditions in Article 7 (but with no obligation to waive any such condition) and to consummate and effect the transactions contemplated herein, including to cooperate with and assist each other in all reasonable respects in connection with the foregoing. Subject to Section 5.1(a), in no event will "reasonable best efforts" be deemed to require the payment of any cash or other consideration or any other material concession by Buyer or any Acquired Company. Without limiting the generality of the foregoing, the following will apply:

(a) **HSR Act.** With respect to the transactions contemplated herein, each applicable Party (other than Sellers' Representative) will (or will cause its applicable Affiliate to), within five Business Days after the Signing Date (or sooner, to the extent required by Applicable Law), file with the United States Federal Trade Commission (the "FTC") and the United States Department of Justice (the "DOJ") the required notification and report form pursuant to the HSR Act and related requirements. Buyer will pay when due all filing and submission fees under the HSR Act. Each applicable Party (other than Sellers' Representative) will furnish, or cause to be furnished, to the other any necessary information and reasonable assistance as the other may request in connection with its preparation of any filing or submission necessary under Applicable Laws. Each applicable Party (other than Sellers' Representative) will keep the other Parties reasonably informed, to the extent permitted by Applicable Laws, of the status of any communications with, and inquiries or requests for additional information from, the FTC, DOJ or any other Governmental Authority, and will use its best efforts to (and, if applicable, cause its appropriate Affiliate to) promptly comply with any such inquiry or request, including by submitting or otherwise providing any supplemental information requested, and to defend against any action of the FTC, DOJ or any other Governmental Authority that attempts to enjoin or otherwise hinder the consummation of the transactions contemplated hereby. Each applicable Party (other than Sellers' Representative) will (and, if applicable, will cause its appropriate Affiliate to) use its best efforts to cause the expiration of the waiting period required under the HSR Act, including by requesting and pursuing early termination of such waiting period. For purposes of this Section 5.1(a), the "best efforts" of Buyer shall include promptly (i) opposing any motion or action for a temporary, preliminary or permanent injunction against the consummation of the transactions contemplated hereby, and (ii) proposing, negotiating, offering to commit and effecting, by consent decree, hold separate order or otherwise, the sale, divestiture or disposition of such businesses or assets of Buyer or, effective as of the Closing, any Acquired Company, or otherwise offering to take or committing to take any action which Buyer is capable of taking and, if the offer is accepted, taking or committing to take such action that limits Buyer's freedom of action with respect to, or its ability to retain, any businesses or assets of Buyer or any Acquired Company, in order to avoid the entry of, to seek to have lifted or to effect the dissolution of any judgment (including any temporary restraining order) or injunction in any Proceeding, which would have the effect of preventing or delaying the Closing beyond the Outside Date.

(b) **Buyer's Financing.** From the Signing Date through Closing, at Buyer's expense, each Target Company will, and will cause each other Acquired Company to, cooperate with Buyer and Buyer's potential financing sources in connection with Buyer's efforts to obtain the financing it desires in connection with the transactions contemplated herein.

5.2 **Pre-Closing Conduct of Business.**

(a) **Certain Required Actions.** Except as expressly contemplated herein (including in Section 5.2(b)) or as otherwise consented to in writing by Buyer (which consent will not be unreasonably withheld or delayed), from the execution and delivery of this Agreement through Closing, each Target Company will, and will cause each other Acquired Company to, conduct its business in its Ordinary Course of Business, except that each Target Company will not, and will not permit any Company Subsidiary to, do any of the following:

(1) (A) issue or otherwise allow to become outstanding or acquire or pledge or otherwise encumber any equity interest or other security of an Acquired Company or any security convertible or exchangeable into any equity interest or other security of an Acquired Company, or any right (including any option, warrant, put, call, subscription, stock appreciation or commitment) of any kind with respect to any such equity interest or other security, (B) split, combine, recapitalize or reclassify any of its equity interests or issue or authorize the issuance of any other security in respect of, in lieu of or in substitution for any of its equity interests or other securities or make any other change to its capital structure or (C) purchase, redeem or otherwise acquire any equity interest or any other security of such Acquired Company or of any other Acquired Company or any right, warrant or option to acquire any such equity interest or other security;

(2) (A) except for sales of inventory in its Ordinary Course of Business, make any sale, lease to any other Person, license to any other Person or other disposition of any material asset, (B) fail to preserve and maintain all of the Real Property in substantially the same condition as existed on the Signing Date, ordinary wear and tear excepted, (C) make any capital expenditure or purchase or otherwise acquire any material asset (other than purchases of inventory in its Ordinary Course of Business and other than capital expenditures that do not exceed by more than $3,000,000 (individually or in the aggregate)), enter into a new lease for any real property from any other Person or enter into a lease for any tangible personal property from any other Person, except leases of tangible personal property in its Ordinary Course of Business, (D) acquire by merging with, or by purchasing a substantial portion of the stock or assets of, or by any other manner, any business or any Person or division thereof, or (E) adopt a plan of liquidation, dissolution, merger, consolidation, statutory share exchange, restructuring, recapitalization or reorganization;

(3) grant or have come into existence any material Encumbrance on any asset, other than (A) with respect to a Major Contract listed in Schedule 3.8(a) (or a Contract not required to be disclosed in Schedule 3.8(a) to avoid a breach of Section 3.8), (B) any Permitted Encumbrance or (C) in its Ordinary Course of Business;

(4) (A) become a guarantor with respect to, assume or otherwise become obligated for any obligation of any other Person for borrowed money, other than any Acquired Company or warranties, guarantees or indemnity obligations entered into or

provided to customers in its Ordinary Course of Business, or (B) agree to maintain the financial condition of any other Person, other than any other Acquired Company;

(5) incur any Indebtedness for borrowed money (other than Indebtedness (A) to any other Acquired Company or (B) incurred under the Acquired Companies' revolving credit facility in the Ordinary Course of Business of the Acquired Companies; and, for the avoidance of doubt, the need to have or put in place, or collateralize, any letter of credit is not itself considered Indebtedness for borrowed money under this clause) that will not be satisfied at or before Closing or make any loan, advance or capital contribution to any other Person (other than any (X) loan, advance or capital contribution to another Acquired Company or (Y) loan or advance to an employee of an Acquired Company, in each case in the Ordinary Course of Business of such Acquired Company);

(6) except in its Ordinary Course of Business, enter into any Contract which would have been a Major Contract if in effect as of the Signing Date, or amend or terminate in any respect that is material and adverse to any Acquired Company any such Contract or any Major Contract;

(7) fail to prepare and timely file all material Tax Returns with respect to any Acquired Company required to be filed during such period or, fail to timely withhold and remit any material Taxes with respect to any Acquired Company (taking into account any proper extension);

(8) (A) adopt or change any material accounting method or principle used by any Acquired Company, except as required under GAAP or the Code or (B) change any annual accounting period;

(9) except for changes in its Ordinary Course of Business or as required by Applicable Law, (A) adopt, enter into, amend or terminate any bonus, profit sharing, compensation, severance, termination, pension, retirement, deferred compensation, trust, fund or other arrangement or other Plan, or (B) enter into or amend any collective bargaining agreement;

(10) amend or change, or authorize any amendment or change to, any of its Organizational Documents; or

(11) commit or agree to do any of the foregoing.

(b) **Certain Permitted Actions.** Notwithstanding Section 5.2(a) and 5.2(b), (i) nothing in this Section 5.2 requires that any Acquired Company make any capital expenditure and (ii) this Agreement will not prevent or otherwise restrict any Acquired Company from doing any of the following:

(1) making any dividend or other distribution of cash, cash equivalents or marketable securities, including any sweep of cash from any account at any time before Closing;

(2) transferring title to the items listed on Schedule 5.2(b)(2) to one or more Sellers and facilitating the removal of such items from the Real Property by such Sellers;

(3) taking or refraining from any action, to the extent expressly required by the terms of this Agreement;

(4) distributing the assets set forth on Schedule 5.2(b)(4) to Larson SD Holdings (the "Retained Assets");

(5) paying prior to Closing any transaction bonus to any current or former employee out of the Cash of such Acquired Company;

(6) taking any action described on Schedule 5.2(b)(6); or

(7) undergoing the Restructuring (and any related ordinary course action in connection with the Restructuring).

5.3 **Further Assurances.** If after Closing any further action is necessary, proper or desirable to carry out any purpose of this Agreement, then each Party will take such further action (including the execution and delivery of further documents) as another Party reasonably requests to carry out such purpose. The foregoing will be at the expense of such requesting Party, except to the extent this Agreement otherwise allocates such expense to any other Person.

5.4 **Access to Information.**

(a) **Pre-Closing Access for Buyer.** From the Signing Date through Closing, subject to the Confidentiality Letter and the Acquired Companies' reasonable confidentiality precautions, including those based on the confidential nature of this Agreement and the transactions contemplated herein, each Target Company will permit (and will cause the Company Subsidiaries to permit) Buyer and Buyer's representatives to have reasonable access during normal business hours and upon reasonable notice from Buyer, to the facilities, books and records of each Acquired Company for the opportunity to prepare for Closing and identify actions that will be necessary or desirable to transition ownership of the Acquired Companies to Buyer. Buyer and Buyer's representatives will conduct such investigation in a manner that does not unreasonably interfere with the operations of any Acquired Company.

(b) **Post-Closing Access for Sellers.** Throughout the seven-year period after Closing, subject to Buyer's reasonable confidentiality precautions, Buyer will, during normal business hours and upon reasonable notice from any Seller: (1) cause such Seller and such Seller's representatives (including Sellers' Representative) to have reasonable access to the books and records (including financial and Tax records, Tax Returns, files, papers and related items) of each Acquired Company and its applicable Affiliates, and to the personnel responsible for preparing and maintaining such books and records, in each case to the extent necessary or reasonably desirable to (A) defend or pursue any Proceeding (including any Proceeding constituting a Retained Asset or related to or arising from any Retained Asset), (B) prepare or audit financial statements, (C) prepare or file Tax Returns, or (D) address other Tax, accounting, financial or legal matters or respond to any investigation or other inquiry by or under the control of any Governmental Authority; and (2) permit any Seller and such Seller's representatives to make copies of such books and records for the foregoing purposes, at such Seller's expense.

5.5 **Confidentiality and Publicity.**

(a) **Confidentiality Agreement.** Subject to the other terms of this Section 5.5, the confidentiality letter, dated September 8, 2020, between Fortune Brands Home & Security, Inc., a Delaware corporation and Etkin & Company, Incorporated, for the benefit of the Acquired Companies (the "Confidentiality Letter"), will remain in full force and effect pursuant to its terms until the conclusion of Closing, at which time the Confidentiality Letter automatically will be terminated (and, to the extent that such Confidentiality Letter otherwise would have terminated upon execution hereof by Buyer, such Confidentiality Letter is hereby amended to so that the restrictions on disclosure and use of Confidential Information (as defined therein) thereunder terminate upon the earlier of Closing or two years from the date of the Confidentiality Letter).

(b) **Publicity.** Except as stated in this Section 5.5(b), each Party will not, and each Party will cause each of its Affiliates not to, make any public release or announcement regarding this Agreement or any of the transactions contemplated herein without the prior written approval thereof of each Party (which, after Closing, will not be unreasonably withheld or delayed). Each Party (other than Sellers' Representative) will cooperate with each other (to the extent requested) in issuing, promptly after the Signing Date, a joint press release with mutually agreed upon text that announces the transactions contemplated herein generally. Notwithstanding anything in this Agreement to the contrary, following Closing and after the public announcement of the transactions contemplated hereby, Sellers' Representative shall be permitted to publicly announce that it has been engaged to serve as Sellers' Representative in connection with the transactions contemplated hereby as long as such announcement does not disclose any of the other terms of the transactions contemplated herein.

(c) **Certain Permitted Disclosures.** Notwithstanding the foregoing, nothing in this Section 5.5 or the Confidentiality Letter will prevent any of the following at any time:

(1) a Party or any of its Affiliates communicating to its direct or indirect equityholders, members or partners (as applicable) regarding the transactions contemplated herein in general terms, other than stockholders of any publicly held corporation (which is the subject of other terms herein);

(2) a Party or any of its Affiliates making a statement or disclosure (A) as part of its or any of its Affiliate's financial statements or, notwithstanding clause (c)(1) above, Tax Returns, (B) to the extent reasonably necessary to enforce or comply with this Agreement or (C) to the extent required to comply with the US securities laws or any other legal requirements of regulations ;

(3) a Party or any of its Affiliates or representatives communicating with any third party to the extent necessary to consummate any of the transactions contemplated by the express terms hereof;

(4) communications reasonably necessary to implement the Restructuring; or

(5) a Party making a statement or disclosure to (A) such Party's (or any of its Affiliate's) paid legal, accounting and financial advisers to the extent reasonably necessary for any such adviser to perform its paid legal, accounting and financial services,

respectively, for such Party (or such Affiliate) or (B) any lender or investor or prospective lender or investor of such Party (or such Affiliate) to the extent reasonably required as part of such lending or investing relationship; provided, however, that such Party will cause each Person to whom such statement or disclosure is made under this clause (c)(6) to keep confidential and not disclose to any other Person any information in such statement or disclosure.

5.6 **Employee Matters.**

(a) **Compensation.** Until December 31, 2022 (the "Continuation Period"), Buyer shall, or shall cause the each Acquired Company or any of their respective Affiliates to, provide to each individual who, immediately prior to the Closing is an employee of an Acquired Company, including any individual on short-term or long-term disability leave immediately prior to the Closing (i) at least the same salary or hourly wage rate provided to such employee immediately prior to the Closing, (ii) at least the same short-term (annual or more frequent) bonus or commission opportunity provided to such employee immediately prior to the Closing and (iii) other compensation and benefits (excluding equity and equity-based awards, which will remain discretionary) that are no less favorable in the aggregate as those provided to such employee under the compensation and benefit plans, programs, policies, agreements and arrangements of the Acquired Companies in effect immediately prior to the Closing (subsections (a)(i), (a)(ii), and (a)(iii) being collectively referred to as "Comparable Benefits"). Buyer shall maintain full discretion as to whether to provide such Comparable Benefits under Target Company Plans or plans or arrangements of the Buyer or its affiliates. Notwithstanding anything to the contrary set forth herein, after the Closing, nothing herein shall preclude any Acquired Company from terminating the employment of any employee for any lawful reason; provided that Comparable Benefits shall not be provided following termination of employment except to the extent required by COBRA . All severance and change in control benefits to be provided for eligible employees terminated after the Closing but during the Continuation Period shall be as provided according to the terms of the Fortune Brands Home & Security, Inc. United States Severance Plan to be effective immediately after the Closing.

(b) **Continuation of Benefits.** For all purposes under any Buyer Plan, each Acquired Company employee shall receive full credit for such employee's years of service with the Acquired Companies before the Closing (including predecessor or acquired entities or any other entities for which any Acquired Company has given credit for prior service), but only to the extent such credit would not result in a duplication of accrual of benefits. In addition, where applicable, and without limiting the generality of the foregoing: (i) each employee of any Acquired Company as of the Closing shall not be subject to any waiting periods of any Buyer Plan to the extent such waiting time was satisfied under a similar or comparable Target Company Plan in which such employee participated immediately before the Closing (such comparable Target Company Plans, collectively, the "Old Plans"), (ii) Buyer shall cause all pre-existing condition exclusions or limitations, evidence of insurability and actively-at-work requirements of each Buyer Plan to be waived or satisfied for each employee of any Acquired Company and his or her covered dependents to the extent waived or satisfied under the analogous Old Plan as of the Closing and (iii) Buyer shall cause all eligible expenses incurred by each employee of any Acquired Company and his or her covered dependents during the portion of the plan year of the Old Plan ending on the date such employee's participation in the corresponding Buyer Plan begins to be taken into account under such Buyer Plan for purposes of satisfying all deductible, coinsurance and maximum out-of-pocket requirements applicable to such employee and his or her covered dependents for the applicable plan year; in each case if and to the extent Buyer determines it will provide such benefits under Buyer Plans rather than Target Company

Plans, as permitted by Section 5.6(a). Nothing herein shall require eligibility for any particular Buyer Plan, including any defined benefit pension plan or retiree medical plan.

(c) **401(k) Transition**. To the extent that employees of the Acquired Companies are eligible for a Buyer Plan with a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code, Buyer or its Affiliates shall cause such Buyer Plan to allow each employee of the Acquired Companies to make a "direct rollover" to such Buyer Plan of such employee's account balance (including promissory notes evidencing any outstanding loans) in any Target Company Plan.

(d) **Community**. During the Continuation Period, Buyer will cause the headquarters for the Acquired Companies' Business to remain at all times at the current Brookings, South Dakota headquarters.

(e) **No Amendment of Benefits nor Third Party Beneficiary.** No provision of this Section 5.6 shall create any third-party beneficiary rights in any Person, including employees or former employees (including any beneficiary or dependent thereof) of an Acquired Company, or trustees, administrators, participants, or beneficiaries of any Plan, and no provision of this Section 5.6, shall create such third-party beneficiary rights in any such Person in respect of any benefits that may be provided, directly or indirectly, under any Plan. Further, nothing herein shall, or shall be deemed, to amend any Plans.

(f) **Certain Bonuses.** Buyer and each Target Company shall cause the applicable Acquired Company to pay to each employee of an Acquired Company described on Exhibit 5.6(f) a bonus based on the description for such employee set forth on Exhibit 5.6(f) in the amount calculated in accordance with Exhibit 5.6(f) (the "Scheduled 2020 Bonuses"), during the period of time set forth on Exhibit 5.6(f).

5.7 **Exculpation and Indemnification of Directors and Officers.** Throughout the six-year period after the Closing Date, Buyer will prevent the amendment, repeal or modification of any provision in any Organizational Document of any Acquired Company relating to exculpation or indemnification for acts or omissions occurring on or before the Closing Date of its officers, directors and managers holding office before the Closing (except to the extent required by Applicable Law), it being the intent of the Parties that such officers, directors and managers will continue to be entitled to such exculpation and indemnification for such acts or omissions to the greatest extent permitted under Applicable Law. Prior to the Closing Date, each Target Company shall obtain, at the expense of Buyer, "tail" policies in respect of existing policies of directors' and officers' liability insurance maintained by such Target Company, for a period of six years after the Closing Date, to provide insurance coverage for events, acts or omissions occurring on or prior to the Closing for all Persons who were officers, directors or managers of any Acquired Company on or prior to the Closing. Buyer's obligations under this Section 5.7 will not be terminated or modified in a manner that adversely affects any Person to whom this Section 5.7 relates with respect to acts or omissions occurring on or before the Closing Date without the consent of such affected Person (it being expressly agreed that each such Person to whom this Section 5.7 relates will be a third-party beneficiary of this Section 5.7).

5.8 **Certain Tax Matters.**

(a) **Pre-Closing Tax Period Taxes**. A tax representative appointed by the Sellers (the "Tax Representative") will prepare or cause to be prepared, at Sellers' expense, and file or cause to be filed all Income Tax Returns for each Acquired Company for all periods ending on or prior to the Closing Date and which are due after the Closing Date. All Tax Returns prepared pursuant to this Section 5.8(a) will be prepared in accordance with past practices of the Acquired Companies to the extent consistent with Applicable Law (except that the Transaction Deductions will be utilized to the maximum extent possible under Applicable Law). The Tax Representative will submit any such Income Tax Return to the Buyer no less than thirty (30) days prior to filing for review and comment by the Buyer.

(b) **Pre-Closing Tax Period Taxes for LMC**. As a result of the transactions described herein, LMC's Tax year will close at the end of the day on the Closing Date ("2020 Short-Period Tax Year") and LMC will join the consolidated group of Fortune Brands Home & Security, Inc., the parent company of the Buyer, on the day after the Closing Date. The Tax Representative, at Sellers' expense, will prepare or cause to be prepared and file or cause to be filed all Income Tax Returns for LMC for all periods ending on or prior to the Closing Date, including but not limited to the 2020 Short-Period Tax Year, and which are due after the Closing Date and will pay all Taxes shown as due and payable on such Income Tax Returns. All Tax Returns prepared pursuant to this Section 5.8(b) will be prepared in accordance with past practices of the Acquired Companies to the extent consistent with Applicable Law. The Tax Representative will submit any such Income Tax Return to the Buyer no less than thirty (30) days prior to filing for review and comment by the Buyer.

(c) **Preparation of Tax Returns.** With respect to the preparation of Tax Returns, Buyer, each Acquired Company and Sellers' Representative agree that (1) all Transaction Deductions will be treated as properly allocable to the taxable period or portion thereof ending on or before the Closing Date and will be included as deductions on the Tax Returns of the relevant Acquired Company for such period to the maximum extent permitted by Applicable Law, (2) the Tax Representative, in consultation with Buyer, will determine the amount of Transaction Deductions and (3) the Acquired Companies' past practices will be considered not to preclude the deduction of the Transaction Deductions. The Transaction Deductions will be computed consistent with the safe harbor for treating success-based fees pursuant to Revenue Procedure 2011-29, 2011-18 I.R.B. 746 in lieu of maintaining the documentation required by Treasury Regulations section 1.263(a)-5(f).

(d) **Cooperation.** Each Party will, and each Party will cause its applicable Affiliates to, cooperate in all reasonable respects with respect to Tax matters and provide one another with such information as is reasonably requested to enable the requesting Party to complete and file all Tax Returns it may be required to file (or cause to be filed) with respect to any Acquired Company, to respond to Tax audits, inquiries or other Tax Proceedings and to otherwise satisfy Tax requirements. Such cooperation also will include promptly forwarding copies (to the extent related thereto) of (1) relevant Tax notices, forms or other communications received from or sent to any Governmental Authority (whether or not requested) and (2) reasonably requested copies of all relevant Tax Returns together with accompanying schedules and related workpapers, documents relating to rulings, audits or other Tax determinations by any Governmental Authority and records concerning the ownership and Tax basis of property.

(e) **Cooperation on Elections**. In the event that any S corporation election or qualified subchapter S subsidiary election with respect to any Acquired Company is found to be

invalid or to have terminated on or before the Closing Date (other than as a result of the Restructuring), the Sellers shall cooperate with Buyer if Buyer decides to seek a corrective ruling from the IRS. At the request of Buyer, the Sellers shall take such steps, and make such adjustments, as may be required by the IRS pursuant to Section 1362(f)(3) and (4) of the Code. The Sellers shall bear the reasonable expenses of procuring the corrective ruling from the IRS, subject to advance approval by the Sellers.

(f) **Transfer Taxes.** Notwithstanding the other terms of this Section 5.8, Buyer will pay all Transfer Taxes, and the Sellers will cooperate in timely making all filings, returns, reports and forms as may be required to comply with the provisions of Applicable Law relating thereto.

(g) **Amendment of Tax Returns and Post-Closing Actions**. Without Sellers' Representative advance consent, Buyer will not, and will not cause or permit Acquired Company (or any Affiliate of any Acquired Company) to take, any of the following actions with respect to Income Taxes or Income Tax Returns in each case for any Pre-Closing Tax Period: (1) file, or cause to be filed, any restatement or amendment of, modification to, or claim for refund relating to, any Income Tax Return of any Acquired Company for any Pre-Closing Tax Period, (2) make or change any Income Tax election with respect to an Acquired Company for any Pre-Closing Tax Period, (3) extend or waive any statute of limitations with respect to Taxes or Tax Returns of any Acquired Company for a Pre-Closing Tax Period, (4) file Income Tax Returns for an Acquired Company for a Pre-Closing Tax Period in a jurisdiction in which such Acquired Company has not historically filed Income Tax Returns, (5) initiate discussions or examinations with a Taxing Authority or make any voluntary disclosures with respect to Income Taxes or Income Tax Returns of any Acquired Company for Pre-Closing Tax Periods, (6) change any accounting method or adopt any convention for the Company that shifts taxable income from a Taxable period beginning after the Closing Date to a Pre-Closing Tax Period or shifts deductions or losses from a Pre-Closing Tax Period to a Taxable period beginning after the Closing Date or (7) take any action after the Closing on the Closing Date outside the ordinary course of business.

(h) **Tax Elections Under Section 6221.**

(1) To the extent allowed by Applicable Law, both AEI and Comfort Bilt will make valid elections, pursuant to Section 6221(b) of the Code and any similar provision for state Income Tax purposes, to elect out of Subchapter C of Chapter 63 of Subtitle F of the Code, for any tax year that begins on or after January 1, 2018 and ends on or before the Closing Date.

(2) In the event that AEI cannot make an election under Section 6221(b) of the Code for any taxable year ending on or before the Closing Date, AEI and each AEI Equityholder will, in the event of a future IRS examination of any such tax years, either (i) cause Section 6225 of the Code not to apply by making a timely "push out" election under Section 6226(a) of the Code, or (ii) file amended returns as outlined in Section 6225(c)(2) of the Code such that there is no "imputed underpayment amount" under Section 6225 of the Code.

(3) In the event that Comfort Bilt cannot make an election under Section 6221(b) of the Code for any taxable year ending on or before the Closing Date, Comfort Bilt and each Comfort Bilt Equityholder will, in the event of a future IRS examination of any such tax years, either (i) cause Section 6225 of the Code not to apply by making a timely "push out" election under Section 6226(a) of the Code, or (ii) file amended returns as outlined in Section 6225(c)(2) of the Code such that there is no "imputed underpayment amount" under Section 6225 of the Code.

5.9 **Exclusivity.** From the Signing Date until the Closing Date, each Target Company shall not, and it shall not permit any of its Company Subsidiaries or any of its or their respective directors, officers, employees, representatives or agents to, directly or indirectly, (a) discuss, negotiate, undertake, authorize, recommend, propose or enter into any transaction involving a merger, consolidation, business combination, purchase or disposition of any material assets of any Acquired Company (other than in its Ordinary Course of Business) or any capital stock or other equity interests of any Acquired Company (an "Acquisition Transaction"), (b) facilitate, encourage, solicit or initiate discussions, negotiations or submissions of proposals or offers in respect of an Acquisition Transaction, (c) furnish or cause to be furnished, to any Person, any information concerning the business, operations, properties or assets of any Acquired Company in connection with an Acquisition Transaction, or (d) otherwise cooperate in any way with, or assist or participate in, facilitate or encourage, any effort or attempt by any other Person to do or seek any of the foregoing. Each Larson Party shall, and it shall cause the Company Subsidiaries to, immediately cease and cause to be terminated any existing discussions or negotiations with any Persons (other than Buyer) conducted heretofore with respect to any of the foregoing.

5.10 **Transition Matters; Return of Personal Property**.

(a) **Transition Matters.** From and after Closing, Buyer and each Target Company shall cause the applicable Acquired Company to provide each of the services and other items set forth on Exhibit 5.10(a) to the Seller or third party set forth on Exhibit 5.10(a), for the period of time identified on Exhibit 5.10(a) (unless earlier terminated in writing by Sellers' Representative) in exchange for the consideration set forth on Exhibit 5.10(a) with respect to such service or item.

(b) **Return of Certain Personal Property.** Upon the request of Mr. Dale Larson, his estate, or his personal representative, the applicable Acquired Company shall, at Mr. Larson's expense, return any of the items set forth on Schedule 5.2(b)(2) in accordance with the reasonable instructions of Person making such request.

(c) **Retained Assets.** If after Closing any further action is necessary or desirable to carry out the transfer of the Retained Assets to Larson SD Holdings or the utilization of the Retained Assets by Larson SD Holdings (including, executing any agreements designed to protect any attorney-client, work product or other privilege with respect to the Retained Assets), then Buyer will (and will cause Larson SD and the other Acquired Companies to) take such further action (including the execution and delivery of further documents) as Larson SD Holdings or the Sellers' Representative may request, at the cost and expense of Larson SD Holdings. Larson SD Holdings shall be responsible for any and all liabilities relating to the Retained Assets, including any contracts included as part of the Retained Assets.

ARTICLE 6 - CLOSING, CLOSING DELIVERIES AND TERMINATION

6.1 **Closing.** Subject to any earlier termination hereof, closing of the transactions contemplated herein ("Closing") will take place at the offices of Faegre Drinker Biddle & Reath LLP in Minneapolis, Minnesota, beginning at 9:00 a.m. local time at such offices on the date that is the second Business Day after the satisfaction or waiver of each condition to the Closing set forth in Article 7 shall have occurred (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or written waiver of such conditions at Closing) or such other date or time as Buyer and the Target Companies mutually determine. Notwithstanding the foregoing, if the final conditions to the Closing to be satisfied are the conditions in Section 7.1(f) and Section 7.2(d), and such conditions are satisfied by the grant of early termination of the waiting period under the HSR Act, then the Closing will take place on the date that is the fifth Business Day after the satisfaction of such conditions or such other date or time as Buyer and the Target Companies mutually determine (the actual date Closing occurs being "Closing Date"). To the extent the applicable Parties agree, documents may be delivered at Closing by .pdf attachment or other electronic means, and (except as so agreed) the receiving Party may rely on the receipt of such documents so delivered as if the original had been received. All deliveries and payments required to be made at the Closing shall be deemed to have been made simultaneously as of Closing, and no such deliveries or payments shall be deemed completed and no document, instrument or certificate shall be deemed to have been delivered until all such deliveries and payments are made and all documents, instruments and certificates delivered.

6.2 **Closing Deliveries by the Target Companies.** At Closing, the Target Companies will deliver, or cause to be delivered, to Buyer (or as Buyer or this Agreement otherwise directs), the following:

(a) a membership unit assignment, dated the Closing Date and executed by each Seller, in a form suitable for transferring the Larson SD Units, Larson Iowa Units, Comfort Bilt Units, and the AEI Units to Buyer;

(b) the written resignation (or documentation reasonably satisfactory to Buyer showing the removal) of each director of Larson SD and Larson Iowa and each manager of Comfort Bilt and AEI to the extent requested by Buyer in writing at least two Business Days prior to Closing, with each such resignation (or removal) being effective no later than the Closing Date; and

(c) the Escrow Agreement, dated the Closing Date and executed by Sellers' Representative.

6.3 **Closing Deliveries by Buyer.** At Closing, Buyer will deliver, or cause to be delivered, to the Target Companies or the Paying Agent, as applicable, the following:

(a) payment of the Estimated Consideration, pursuant to Article 2; and

(b) the Escrow Agreement, dated the Closing Date and executed by Buyer.

6.4 **Termination of Agreement.** The sole and exclusive rights to terminate this Agreement and abandon the transactions contemplated hereby before Closing (and the Party that has any such right) are as follows:

(a) by mutual written consent of Buyer and the Target Companies;

(b) by either the Target Companies or Buyer, if Closing has not occurred on or before December 31, 2020 (the "Outside Date");

(c) by Buyer, if (1) there has been a breach, inaccuracy or failure to perform any representation, warranty, covenant or agreement made by any Target Company pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Section 7.1 and such breach, inaccuracy or failure has not been cured by the Target Companies, as applicable, within ten Business Days of the Target Companies' and receipt of written notice of such breach, inaccuracy or failure from Buyer, or (2) any of the conditions set forth in Section 7.1 shall not have been, or if it becomes apparent that any such conditions will not be, fulfilled by the Outside Date, provided that with respect to clause (c)(1) and (c)(2) above Buyer shall have not waived such condition in writing; or

(d) by the Target Companies, if (1) there has been a breach, inaccuracy or failure to perform any representation, warranty, covenant or agreement made by Buyer pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Section 7.2 and such breach, inaccuracy or failure has not been cured by Buyer within ten Business Days of Buyer's receipt of written notice of such breach, inaccuracy or failure from the Target Companies, or (2) any of the conditions set forth in Section 7.2 shall not have been, or if it becomes apparent that any such conditions will not be, fulfilled by the Outside Date, provided that with respect to clause (d)(1) and (d)(2) above the Target Companies have not waived such condition in writing.

A termination of this Agreement under any of the preceding clauses (b) through (d) will be effective without further action by any Party one Business Day after the Party seeking termination gives to each other Party written notice of such termination. Notwithstanding any term in this Section 6.4, a Party will not have the right to terminate this Agreement (except by mutual written consent pursuant to Section 6.4(a)) if the failure to satisfy any condition to Closing or consummate the transactions contemplated herein results in any material respect from the breach by such Party of any of its representations, warranties, covenants or agreements herein or in any Ancillary Document (and any breach by any Target Company will be attributed to the other solely for purposes of determining if the Target Companies have the right to terminate this Agreement under this Section).

6.5 **Effect of Termination.** If this Agreement is terminated pursuant to Section 6.4, then this Agreement will be of no further force or effect, except for the terms of Section 5.5 (entitled, "Confidentiality and Publicity"), Section 9.2 (entitled, "Expenses"), Section 9.5 (entitled, "Governing Law"), Section 9.6 (entitled, "Jurisdiction, Venue and Waiver of Jury Trial"), Section 9.13 (entitled, "Legal Representation"), Section 9.14 (entitled, "Sellers' Representative and Related Matters"), Section 9.15 (entitled, "Guaranty of Buyer's Obligations Through Closing") and this Section 6.5 (and, for the avoidance of doubt, the Guaranty that is attached immediately following the signature page hereto will remain in full force and effect, subject to the other terms of this Section 6.5). Upon any termination pursuant to Section 6.4, no Party will have any further liability or other obligation hereunder or in connection herewith, except pursuant to a Section (and such Guaranty) listed in the immediately preceding sentence or for any of the following (in which case this Section 6.5 will not limit any liability or other obligation with respect thereto): (a) pre-termination fraud, provided that such fraud is of a type of which an element is intent; or (b) willful or intentional breach by such Party. For the avoidance of doubt, any breach of this Agreement by Buyer for failing to pay the Estimated Consideration will be deemed an intentional breach by Buyer.

ARTICLE 7 - CONDITIONS TO OBLIGATIONS TO CLOSE

7.1 **Conditions to Obligation of Buyer to Close.** The obligation of Buyer to effect the closing of the transactions contemplated herein is subject to the satisfaction at or before Closing of all of the following conditions, any one or more of which may be waived in writing by Buyer, in Buyer's sole discretion:

(a) **Accuracy of the Target Companies' Representations and Warranties.** The representations and warranties of the Target Companies in Article 3 will be true and correct as of the Closing Date as if made on the Closing Date (or, in each case, if any such representation and warranty is expressly stated to have been made as of a specific date, then, for such representation and warranty, as of such specific date), in each case except for any inaccuracy in any representation or warranty that, individually or in the aggregate with any other such inaccuracy, does not have a Target Company Material Adverse Effect.

(b) **Observance and Performance by the Target Companies.** The Target Companies will have performed and complied with, in all material respects, the covenants and agreements required by this Agreement to be performed and complied with by the Target Companies on or before the Closing Date.

(c) **No Material Adverse Effect.** Since the Signing Date, there will not have occurred any Target Company Material Adverse Effect that is continuing as of the Closing Date.

(d) **Certificate of the Target Companies.** The Target Companies will have delivered to Buyer a certificate from a duly authorized officer of each Target Company, dated the Closing Date and executed by such officer certifying the items in Section 7.1(a), 7.1(b) and 7.1(c).

(e) **Restructuring.** The Restructuring described in Section 1.1 shall have been completed.

(f) **HSR Act.** The applicable waiting period, and any applicable extension thereof, under the HSR Act will have expired or will have been duly terminated.

(g) **Delivery of Other Items.** The Target Companies will have delivered (or caused to be delivered) to Buyer each of the other items listed in Section 6.2.

(h) **No Legal Actions.** No Governmental Authority of competent jurisdiction will have instituted any Proceeding to restrain, prohibit or otherwise challenge the legality or validity of the transactions contemplated herein that has not been dismissed or otherwise resolved in a manner that does not materially and adversely affect the transactions contemplated herein and no injunction, order or decree of any Governmental Authority will be in effect that restrains or prohibits the consummation of any transactions contemplated herein.

7.2 **Conditions to Obligation of the Target Companies and Sellers' Representative to Close.** The obligation of each Target Company to effect the closing of the transactions contemplated herein is subject to the satisfaction at or before Closing of all of the following conditions, any one or more of which may be waived in writing by the Target Companies, in the Target Companies' sole discretion:

(a) **Accuracy of Representations and Warranties.** The representations and warranties of Buyer in Article 4 will be true and correct as of the Closing Date as if made on the Closing Date (or, in each case, if any such representation and warranty is expressly stated to have been made as of a specific date, then, for such representation and warranty, as of such specific date), in each case except for any inaccuracy in any representation or warranty that, individually or in the aggregate with any other such inaccuracy, has materially and adversely affect Buyer's ability to consummate the transactions contemplated herein.

(b) **Observance and Performance.** Buyer will have each performed and complied with, in all material respects, the covenants and agreements required by this Agreement to be performed and complied with by Buyer on or before the Closing Date.

(c) **Certificate.** Buyer will have delivered to the Target Companies and the Larson Parties a certificate from a duly authorized officer of Buyer, dated the Closing Date and executed by each such officer certifying the items in Sections 7.2(a) and 7.2(b).

(d) **HSR Act.** The applicable waiting period, and any applicable extension thereof, under the HSR Act will have expired or will have been duly terminated.

(e) **Delivery of Other Items.** Buyer will have delivered (or caused to be delivered) to the Target Companies and the Larson Parties each of the other items listed in Section 6.3.

(f) **No Legal Actions.** No Governmental Authority of competent jurisdiction will have instituted any Proceeding to restrain, prohibit or otherwise challenge the legality or validity of the transactions contemplated herein that has not been dismissed or otherwise resolved in a manner that does not materially and adversely affect the transactions contemplated herein and no injunction, order or decree of any Governmental Authority will be in effect that restrains or prohibits the consummation of the transactions contemplated herein.

ARTICLE 8 – CERTAIN LIABILITY MATTERS

8.1 **No Survival.** None of the representations and warranties contained in this Agreement or in any instrument delivered under this Agreement shall survive the Closing, except (i) as provided in Section 8.4 to compensate Buyer out of the Post-Closing Adjustment Escrow Amount for Losses if the capitalization table in Schedule 3.2 is not accurate or (ii) in event of intentional fraud. This Section 8.1 shall not limit any covenant or agreement of any Party that, by its terms, contemplates performance after Closing.

8.2 **Losses.** Notwithstanding any other term herein, no Person will be obligated to any other Person for any special, exemplary or punitive damages, loss of future revenue, income or profits, diminution of value or loss of business reputation or opportunity, or Losses based on any of the foregoing, and no Person will be obligated to any other Person for any Loss determined as a multiple of income, revenue or the like; provided, however, that the foregoing will not apply to (i) any Seller's or any Target Company's rights to recover any Losses if Buyer fails to effect the Closing in breach hereof or (ii) Buyer's rights to recover Losses if any Seller fails to effect the Closing in breach hereof.

8.3 **Certain Disclaimers.** Except for the representations and warranties expressly set forth in Article 3, the Acquired Companies are not making and shall not be deemed to have made, any other representations or warranties, written or oral, statutory, express or implied, concerning the Larson SD Units, Larson SD Units, Comfort Bilt Units, AEI Units, any Larson Party, any Acquired Company, or the business, assets or liabilities of any Acquired Company. No Larson Party is making and shall not be deemed to have made, any representations or warranties, written or oral, statutory, express or implied, concerning the Larson SD Units, Larson Iowa Units, Comfort Bilt Units, AEI Units, any Larson Party, any Acquired Company, or the business, assets or liabilities of any Acquired Company. BUYER REPRESENTS, WARRANTS AND ACKNOWLEDGES THAT, EXCEPT AS EXPRESSLY PROVIDED IN ARTICLE 3, THE ACQUIRED COMPANIES HAVE NOT MADE, AND EACH ACQUIRED COMPANY HEREBY EXPRESSLY DISCLAIMS AND NEGATES, AND BUYER HEREBY EXPRESSLY WAIVE AND ARE NOT RELYING ON, ANY REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, AT COMMON LAW, BY STATUTE OR OTHERWISE RELATING TO, AND BUYER HEREBY EXPRESSLY WAIVES AND RELINQUISHES ANY AND ALL RIGHTS, CLAIMS AND CAUSES OF ACTION AGAINST ANY ACQUIRED COMPANY, ANY SELLER, LARSON SD, LARSON IOWA, AND THEIR REPRESENTATIVES IN CONNECTION WITH, THE ACCURACY, COMPLETENESS OR MATERIALITY OF ANY STATEMENTS, INFORMATION, DATA OR OTHER MATERIALS (WRITTEN OR ORAL) OR DOCUMENTS HERETOFORE FURNISHED OR MADE AVAILABLE TO BUYER OR THEIR REPRESENTATIVES BY OR ON BEHALF OF ANY ACQUIRED COMPANY, ANY SELLER, LARSON SD, OR LARSON IOWA. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, EXCEPT AS EXPRESSLY PROVIDED IN ARTICLE 3, NO ACQUIRED COMPANY, SELLER, LARSON SD, OR LARSON IOWA IS MAKING ANY REPRESENTATION OR WARRANTY TO BUYER WITH RESPECT TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, ANY FORWARD-LOOKING STATEMENTS (INCLUDING ANY UNDERLYING ASSUMPTION) OR THE INFORMATION SET FORTH IN ANY SUMMARY, TEASER, CONFIDENTIAL INFORMATION MEMORANDUM OR MANAGEMENT PRESENTATION DELIVERED TO BUYER OR THEIR REPRESENTATIVES.

8.4 **Adjustment Escrow and Sellers Expense Amount.**

(a) **Post-Closing Adjustment Escrow Amount.** The Post-Closing Adjustment Escrow Amount will be deposited into an escrow account pursuant to Section 2.3(a) and the terms of an Escrow Agreement in the form attached hereto as Exhibit 8.4(a) (the "Escrow Agreement"). Disbursements from such escrow account will occur pursuant to the applicable terms of this Agreement and the Escrow Agreement. Buyer's only rights regarding the Post-Closing Adjustment Escrow Amount are the use of the Post-Closing Adjustment Escrow Amount as contemplated under Section 2.4 or to compensate Buyer as a result of any Losses if the capitalization table in Schedule 3.2 is not accurate and Buyer will have no other right with respect thereto.

(b) **Sellers Expense Amount.** Payments from the Sellers Expense Amount will be used for the purposes of paying directly, or reimbursing Sellers' Representative for, any third party expenses pursuant to the applicable terms of this Agreement and the agreements ancillary hereto, or as Sellers' Representative otherwise determines in connection with the transactions contemplated herein. The Sellers Expense Amount will be used by Sellers' Representative only under or in connection with this Agreement and the transactions contemplated herein, and Buyer will not have any control over, or right to receive, any of the Sellers Expense Amount or any information relating thereto. The Sellers will not receive any interest or earnings on the Sellers Expense Amount

and irrevocably transfer and assign to Sellers' Representative any ownership right that they may otherwise have had in any such interest or earnings. Sellers' Representative will not be liable for any loss of principal of the Sellers Expense Fund other than as a result of its gross negligence or willful misconduct. Sellers' Representative will hold these funds separate from its corporate funds, will not use these funds for its operating expenses or any other corporate purposes and will not voluntarily make these funds available to its creditors in the event of bankruptcy. As soon as practicable following the completion of Sellers' Representative's responsibilities, Sellers' Representative will deliver any remaining balance of the Sellers Expense Amount to the Paying Agent for further distribution to the Closing Payment Recipients in accordance with their Percentages. For tax purposes, the Sellers Expense Amount will be treated as having been received and voluntarily set aside by the Sellers at the time of Closing.

ARTICLE 9 - CERTAIN GENERAL TERMS AND OTHER AGREEMENTS

9.1 **Notices.** All notices or other communications required or permitted to be given hereunder will be in writing and will be (a) delivered by hand, (b) sent by e-mail of a .pdf document (with confirmation of transmission), provided that a copy is also sent on the same day by nationally recognized overnight delivery service for next Business Day delivery, (c) sent by United States registered or certified mail or (d) sent by nationally recognized overnight delivery service for next Business Day delivery, in each case as follows:

(1) if to any Target Company (at or before Closing) or if to any Seller, or Sellers' Representative (at or before Closing):

Larson Manufacturing Company of South Dakota
2333 Eastbrook Drive
Brookings, SD 57006
Attn: Bill Retterath
Email: BRetterath@larsondoors.com

with a copy to (which shall not constitute notice):

Faegre Drinker Biddle & Reath LLP
2200 Wells Fargo Center
90 S. 7th Street
Minneapolis, MN 55402
Attn: Michael A. Stanchfield
Email: mike.stanchfield@FaegreDrinker.com

:presentative, to:

(2) if to Buyer:

Fortune Brands Doors, Inc.
520 Lake Cooke Road
Deerfield, Illinois 60015
Attn: Robert K. Biggart, SVP & General Counsel
Email: robert.biggart@fbhs.com

(3) if to any Seller or Sellers' Representative (after Closing):

Shareholder Representative Services LLC
950 17th Street, Suite 1400
Denver, CO 80202
Attn: Managing Director
Email: deals@srsacquiom.com

with a copy to (which shall not constitute notice):

Faegre Drinker Biddle & Reath LLP
2200 Wells Fargo Center
90 S. 7th Street
Minneapolis, MN 55402
Attn: Michael A. Stanchfield
Email: mike.stanchfield@FaegreDrinker.com

Such notices or communications will be deemed given (A) if so delivered by hand, when so delivered, (B) if so sent by e-mail, one Business Day after transmission, provided that a copy is also sent on the same day by nationally recognized overnight delivery service for next Business Day delivery, (C) if so sent by mail, three Business Days after mailing, or (D) if so sent by overnight delivery service, one Business Day after delivery to such service. A Party may change the address to which such notices and other communications are to be given by giving each other Party notice in the foregoing manner. Any such notice or other communication given to Sellers' Representative after Closing will constitute giving such notice or other communication to all Sellers.

9.2 **Expenses.** Except as is expressly stated otherwise herein, each Party will bear its own costs and expenses incurred in connection with the transactions contemplated herein.

9.3 **Interpretation; Construction.** In this Agreement:

(a) the table of contents and headings are for convenience of reference only and will not affect the meaning or interpretation of this Agreement;

(b) the words "herein," "hereunder," "hereby" and similar words refer to this Agreement as a whole (and not to the particular sentence, paragraph or Section where they appear);

(c) terms used in the plural include the singular, and vice versa, unless the context clearly requires otherwise;

(d) unless expressly stated herein to the contrary, reference to any document means such document as amended or modified in accordance with the terms thereof;

(e) unless expressly stated herein to the contrary, reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, in whole or in part, and as in effect from time to time, including any rule or regulation promulgated thereunder;

(f) the words "including," "include" and variations thereof are deemed to be followed by the words "without limitation";

(g) "or" is used in the sense of "and/or"; "any" is used in the sense of "any or all"; and "with respect to" any item includes the concept "of," "under" or "regarding" such item or any similar relationship regarding such item;

(h) unless expressly stated herein to the contrary, reference to a document, including this Agreement, will be deemed to also refer to each annex, addendum, exhibit, schedule or other similar attachment thereto;

(i) unless expressly stated herein to the contrary, reference to an Article, Section, Schedule or Exhibit is to an article, section, schedule or exhibit, respectively, of this Agreement;

(j) all dollar amounts are expressed in United States dollars and will be paid in cash by wire transfer of immediately available funds (unless expressly stated herein to the contrary) in United States currency;

(k) when calculating a period of time, the day that is the initial reference day in calculating such period will be excluded and, if the last day of such period is not a Business Day, such period will end on the next day that is a Business Day;

(l) with respect to all dates and time periods in or referred to in this Agreement, time is of the essence;

(m) the phrase "the date hereof" means the Signing Date, as stated in the first paragraph hereof;

(n) for any reference to an item having been provided to Buyer, such item will be deemed to have been so provided if such item was made available to Buyer or any Affiliate of Buyer, at least one day before the Signing Date, on the datasite hosted by Datasite, LLC and used by the Parties before the Signing Date (however, the foregoing is not the exclusive means by which an item may have been provided); and

(o) the Parties participated jointly in the negotiation and drafting of this Agreement and the documents relating hereto, and each Party was (or had ample opportunity to be) represented by legal counsel in connection with this Agreement and such other documents and each Party and, if applicable, each Party's counsel has reviewed and revised (or had ample opportunity to review and revise) this Agreement and such other documents; therefore, if an ambiguity or question of intent or interpretation arises, then this Agreement and such other documents will be construed as if drafted jointly by the Parties and no presumption or burden of proof will arise favoring or disfavoring any Party by virtue of the authorship of any of the terms hereof or thereof.

9.4 **Parties in Interest; Third Party Beneficiaries.** Except for the Persons referred to in Section 5.7, there is no third party beneficiary hereof and nothing in this Agreement (whether express or implied, including Section 5.6) will or is intended to confer any right or remedy under or by reason of this Agreement on any other such Person (including any employee).

9.5 **Governing Law.** This Agreement, including the validity hereof and the rights and obligations of the Parties hereunder, all amendments and supplements hereto and the transactions contemplated hereby, and all Proceedings arising out of or relating to this Agreement of any nature whatsoever, shall be construed in accordance with and governed by the domestic substantive laws of the State of Delaware without giving effect to any choice of law or conflicts of law provision or rule that might otherwise cause the application of the domestic substantive laws of any other jurisdiction.

9.6 **Jurisdiction, Venue and Waiver of Jury Trial.** EXCEPT TO THE EXTENT STATED OTHERWISE IN SECTION 2.4, EACH PARTY HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE COURT OF CHANCERY OF THE STATE OF DELAWARE IN ANY PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY ANCILLARY DOCUMENT AND TO THE RESPECTIVE COURT TO WHICH AN APPEAL OF THE DECISIONS OF ANY SUCH COURT MAY BE TAKEN, AND EACH PARTY AGREES NOT TO COMMENCE, OR COOPERATE IN OR ENCOURAGE THE COMMENCEMENT OF, ANY SUCH PROCEEDING, EXCEPT IN SUCH A COURT. EACH PARTY HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE THEREIN OF SUCH A PROCEEDING. EACH PARTY HEREBY IRREVOCABLY CONSENTS TO THE SERVICE OF A COPY OF THE SUMMONS AND COMPLAINT, AND ANY OTHER PROCESS WITH RESPECT TO ANY SUCH PROCEEDING THAT MAY BE SERVED IN ANY SUCH PROCEEDING BY ANY METHOD PROVIDED BY APPLICABLE LAW. EACH PARTY HEREBY AGREES THAT A FINAL JUDGMENT IN ANY SUCH PROCEEDING WILL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY JURISDICTION BY SUIT ON THE JUDGMENT OR BY ANY OTHER MANNER PROVIDED BY APPLICABLE LAW. EACH PARTY HEREBY EXPRESSLY WAIVES ANY RIGHT IT MAY HAVE TO A JURY TRIAL IN ANY SUCH PROCEEDING.

9.7 **Entire Agreement; Amendment; Waiver.** This Agreement, including the Schedules and Exhibits and other agreements referenced herein, including the Escrow Agreement, and the Shareholder Representative Services LLC engagement letter constitutes the entire Agreement among the Parties pertaining to the subject matter herein and supersedes any prior representation, warranty, covenant, agreement or similar assurance (whether direct or indirect, written or oral, or statutory, express or implied) of any Party regarding such subject matter (and there is no other representation, warranty, covenant, agreement or similar assurance of any Party regarding such subject matter). No supplement, modification or amendment hereof will be binding unless expressed as such and executed in writing by each Party affected thereby (except as contemplated in Section 9.9). Except to the extent as may otherwise be stated herein, no waiver of any term hereof will be binding unless expressed as such in a document executed by the Party making such waiver. No waiver of any term hereof will be a waiver of any other term hereof, whether or not similar, nor will any such waiver be a continuing waiver beyond its stated terms. Except to the extent as may otherwise be stated herein, failure to enforce strict compliance with any term hereof will not be a waiver of, or estoppel with respect to, any existing or subsequent failure to comply.

9.8 **Assignment; Binding Effect.** Neither this Agreement nor any right or obligation hereunder will be assigned, delegated or otherwise transferred (by operation of law or otherwise) by any Party without the prior written consent of each other Party (which consent will not be unreasonably withheld or delayed), except that at or after Closing Buyer may collaterally assign this Agreement in connection with any indebtedness for borrowed money of Buyer or any of its Affiliates (including any Acquired Company); provided that no such assignment, delegation or transfer will relieve the assigning, delegating or transferring Party of any obligation hereunder. This Agreement will be binding on and inure to the benefit of the respective permitted successors and assigns of the Parties. Any purported assignment, delegation or other transfer not permitted by this Section is void.

9.9 **Severability; Blue Pencil.** The terms of this Agreement will, where possible, be interpreted and enforced so as to sustain their legality and enforceability, read as if they cover only the specific situation to which they are being applied and enforced to the fullest extent permissible

under Applicable Law. If any term of this Agreement is determined by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced, then all other terms of this Agreement will nevertheless remain in full force and effect, and such term automatically will be amended so that it is valid, legal and enforceable to the maximum extent permitted by Applicable Law, but as close to the Parties' original intent as is permissible.

9.10 **Counterparts.** This Agreement may be executed in counterparts (including via .pdf), each of which will be deemed an original, but all of which together will constitute one and the same instrument. This Agreement may be delivered by facsimile or other electronic means (including via .pdf), and the receiving Party may rely on the receipt of such documents so delivered as if the original had been received.

9.11 **Disclosure Schedules.** Certain information is contained in the Target Company Disclosure Schedule that may not be required to be disclosed pursuant hereto and doing so will not imply that such information or any other information is required to be disclosed. Inclusion of such information will not establish any level of materiality or similar threshold or be an admission that any of such information is material to the business, assets, liabilities, financial position, operations or results of operations of any Person or otherwise material regarding such Person. Each item disclosed in any section of the Target Company Disclosure Schedule in a manner that makes its relevance to one or more other sections of the Target Company Disclosure Schedule reasonably apparent on the face of such disclosure will be deemed to have been appropriately included in each such other section of the Target Company Disclosure Schedule (notwithstanding the presence or absence of any reference in or to any section of the Target Company Disclosure Schedule).

9.12 **Specific Performance.** Each Party acknowledges and agrees that (1) this Section 9.12 is reasonable and necessary to ensure that each Party receives the expected benefits of the transactions contemplated hereby, (2) each Party has refused to enter into this Agreement in the absence of this Section 9.12, (3) each Party may be damaged irreparably if this Agreement is not performed in accordance with its terms or otherwise is breached and (4) in such case monetary damages alone may not be an adequate remedy and there may not be an adequate remedy at law. Therefore, a Party (in addition to all other remedies it may have) will be entitled to seek an injunction and other equitable relief (without posting any bond or other security) to prevent breaches hereof and to enforce specifically this Agreement and its terms.

9.13 **Legal Representation.** Each Party acknowledges and agrees, on its own behalf and on behalf of its Affiliates, that (a) Faegre Drinker Biddle & Reath LLP (along with any predecessor or successor, "Faegre Drinker"), has served as legal counsel to the Acquired Companies from time to time and that Faegre Drinker's services for the Acquired Companies have included representation regarding aspects of the transactions contemplated herein and other matters and (b) after Closing, Faegre Drinker may serve as legal counsel to any Seller or any Affiliate of any Seller, or any director, officer, member, partner or employee of any of the foregoing in connection with the transactions contemplated herein (including any claim or other Proceeding relating hereto) or any other matter, notwithstanding such other representation (or any continued representation). Each Party (on its and its Affiliates behalf) hereby consents to such representation and waives any conflict of interest relating thereto. In addition, all communications involving attorney-client confidences among the Acquired Companies and Faegre Drinker in the course of the negotiation, documentation and consummation of the transactions contemplated herein will be deemed to be attorney-client confidences that belong solely to the Sellers (and not to any Acquired Company or its subsidiaries) and may be controlled by Sellers' Representative. Without limiting the generality of the foregoing,

(a) upon and after the Closing, (1) the Sellers and each of their Affiliates (and not any Acquired Company or its subsidiaries) will be the sole holders of the attorney-client privilege with respect to the negotiation, documentation and consummation of the transactions contemplated herein (collectively, the "Pre-Sale Communications"), and no Acquired Company or its subsidiaries will be a holder thereof, (2) to the extent that files of Faegre Drinker with respect to the negotiation, documentation and consummation of the transactions contemplated herein constitute property of the client, only the Sellers and their Affiliates (and not any Acquired Company or its subsidiaries) will hold such property rights and (3) Faegre Drinker will have no duty whatsoever to reveal or disclose the Pre-Sale Communications of files pertaining to the Pre-Sale Communications to any Acquired Company or any of its subsidiaries by reason of any attorney-client relationship between Faegre Drinker and the Acquired Companies or otherwise; and (b) it would be impracticable to remove from the records (including emails and other electronic files) of the Acquired Companies any privileged communications with Faegre Drinker and therefore the Parties agree that no waiver of any applicable attorney-client, work product or other privilege shall result if such material is allowed to remain in the files of any Acquired Company and its Affiliates.

9.14 **Sellers' Representative and Related Matters.**

(a) **Sellers' Representative's Limited Role.** By signing this Agreement, each Seller approves the designation of, and hereby designates, Shareholder Representative Services LLC as the representative, agent and attorney-in-fact of the Sellers, or any successor Sellers' Representative, ("Sellers' Representative") as of the Closing for all purposes in connection with this Agreement and the agreements ancillary hereto and is only a party to this Agreement for the purpose of performing as Sellers' Representative. Sellers' Representative has no obligation to incur or pay any expense in connection herewith, including that Sellers' Representative has no obligation (indemnification or otherwise) for any Loss of any other Party. Sellers' Representative may resign at any time upon written notice to the advisory committee as established pursuant to the Shareholder Representative Services LLC engagement letter. Sellers' Representative may be changed or replaced, and any vacancy in the position of Sellers' Representative may be filled, in each case by action of affirmative action of Sellers holding a majority of the economic interests in the remaining portion of the Sellers Expense Amount. No bond will be required of Sellers' Representative. The Sellers will inform Buyer of any such resignation or other change.

(b) **Buyer's Reliance and Certain Acknowledgements and Agreements.** After Closing, Buyer and each Acquired Company will be entitled to rely on all statements, actions, representations and decisions of Sellers' Representative after Closing as being the binding acts of all Sellers or any of them, notwithstanding any communication from any Seller to the contrary (other than communication regarding termination or replacement of Sellers' Representative pursuant to this Section 9.14). Buyer's or each Acquired Company's obligation to make any payment to or for the benefit of any Seller or Closing Payment Recipient under or in connection with this Agreement is to make such payment to the Paying Agent or as Sellers' Representative directs, as described herein. If such payment is properly made, then Buyer or such Acquired Company will be entitled to rely conclusively and without independent verification on the Paying Agent making further payment, and the Paying Agent will make all of such payments, each in the proper amount, to the proper Persons.

(c) **Indemnification of Sellers' Representative.** Sellers' Representative will incur no liability of any kind with respect to any action or omission by Sellers' Representative in connection with Sellers' Representative's services pursuant to this Agreement and any agreements ancillary hereto, except in the event of liability directly resulting from Sellers' Representative's gross

negligence or willful misconduct. Sellers' Representative shall not be liable for any action or omission pursuant to the advice of counsel. The Sellers will indemnify, defend and hold harmless Sellers' Representative from and against any and all losses, liabilities, damages, claims, penalties, fines, forfeitures, actions, fees, costs and expenses (including the fees and expenses of counsel and experts and their staffs and all expense of document location, duplication and shipment) (collectively, "Representative Losses") arising out of or in connection with Sellers' Representative's execution and performance of this Agreement and any agreements ancillary hereto, in each case as such Representative Loss is suffered or incurred; provided, that in the event that any such Representative Loss is finally adjudicated to have been directly caused by the gross negligence or willful misconduct of Sellers' Representative, Sellers' Representative will reimburse the Sellers the amount of such indemnified Representative Loss to the extent attributable to such gross negligence or willful misconduct. If not paid directly to Sellers' Representative by the Sellers, any such Representative Losses may be recovered by Sellers' Representative from (i) the Sellers Expense Amount and (ii) any other funds that become payable to the Sellers under this Agreement at such time as such amounts would otherwise be distributable to the Sellers; provided, that while this section allows Sellers' Representative to be paid from the aforementioned sources of funds, this does not relieve the Sellers from their obligation to promptly pay such Representative Losses as they are suffered or incurred, nor does it prevent Sellers' Representative from seeking any remedies available to it at law or otherwise. In no event will Sellers' Representative be required to advance its own funds on behalf of the Sellers or otherwise. Notwithstanding anything in this Agreement to the contrary, any restrictions or limitations on liability or indemnification obligations of, or provisions limiting the recourse against non-parties otherwise applicable to, the Sellers set forth elsewhere in this Agreement are not intended to be applicable to the indemnities provided to Sellers' Representative under this section. The foregoing indemnities will survive the Closing, the resignation or removal of Sellers' Representative or the termination of this Agreement.

9.15 **Guaranty of Buyer's Obligations Through Closing.** Each Party acknowledges that, on the Signing Date, Fortune Brands Home & Security, Inc, a Delaware corporation and Affiliate of Buyer, is executing and delivering to the Target Companies the Guaranty that is attached immediately following the signature page hereto.

ARTICLE 10 - CERTAIN DEFINITIONS

"2020 Short Period Tax Year" is defined in Section 5.8(b).

"Acquired Company" is defined in the Recitals. An Acquired Company which is converted into a limited liability company pursuant to the Restructuring will continue to be considered an Acquired Company after such conversion.

"Acquisition Transaction" is defined in Section 5.9.

"AEI" is defined in the first paragraph of this Agreement.

"AEI Equityholder" is defined in the Recitals.

"AEI Units" is defined in the Recitals.

"Affiliate" means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, such Person. For purposes of this definition, "control," "controlled by" and "under common control with," as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities, by Contract or otherwise.

"Affiliated Group" means any affiliated group within the meaning of section 1504(a) of the Code or any similar group defined under a similar provision of Applicable Law.

"Aggregate Net Closing Consideration" is defined in Section 2.3(a).

"Agreement" is defined in the first paragraph of this Agreement.

"Allocation" is defined in Section 2.4(g).

"Ancillary Document" means a Buyer Ancillary Document or Target Company Ancillary Document.

"Annual Financial Statements" is defined in Section 3.4(a)(1).

"Applicable Law" means any applicable provision of any constitution, treaty, statute, law, rule, regulation, ordinance or code enacted, adopted, issued or promulgated by any Governmental Authority.

"Arbitrator" is defined in Section 2.4(c).

"Beinhorn" is defined in the Recitals.

"Bunker" is defined in the Recitals.

"Business" is defined in the Recitals.

"Business Day" means any day, other than a Saturday or Sunday and other than a day that banks in the State of South Dakota or New York are generally authorized or required by Applicable Law to be closed.

"Buyer" is defined in the first paragraph of this Agreement.

"Buyer Ancillary Document" means the certificate contemplated under Section 7.2(c) and the Guaranty that is attached immediately following the signature page hereto.

"Buyer Plan" means a Plan sponsored by Buyer, any Acquired Company or their respective Affiliates.

"Cash" means the sum of the fair market value (expressed in United States dollars) of all cash, cash equivalents and marketable securities of the Acquired Companies as of the NWC Effective Time, determined in accordance with GAAP consistently applied (for avoidance of doubt, Cash shall be calculated net of issued but uncleared checks and drafts and shall include checks actually received by a Target Company or its banks whether or not cleared).

"CLO" is defined in the Recitals.

"Closing" is defined in Section 6.1.

"Closing Date" is defined in Section 6.1.

"Closing Payment Recipient" is defined in Section 1.3(b).

"COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

"Code" means the Internal Revenue Code of 1986, as amended.

"Comfort Bilt" is defined in the first paragraph of this Agreement.

"Comfort Bilt Equityholder" is defined in the Recitals.

"Comfort Bilt Units" is defined in the Recitals.

"Company Subsidiary" is defined in the Recitals.

"Comparable Benefits" is defined in Section 5.6(a).

"Confidentiality Letter" is defined in Section 5.5(a).

"Continuation Period" is defined in Section 5.6(a).

"Contract" means any contract, agreement, purchase order, warranty or guarantee, license, use agreement, lease (whether for real estate, a capital lease, an operating lease or other), instrument or note, in each case that creates a legally binding obligation, and in each case whether oral or written.

"DOJ" is defined in Section 5.1(a).

"Downward Reconciliation Amount" is defined in Section 2.4(f)(2).

"Encumbrance" means any mortgage, pledge, security interest, charge, lien, right to purchase or other encumbrance.

"Enforcement Limitation" means any applicable bankruptcy, reorganization, insolvency, moratorium or other similar Applicable Law affecting creditors' rights generally and principles governing the availability of equitable remedies.

"Environmental Claim" means any written notice by a Governmental Authority alleging liability (including liability for investigatory cost, cleanup cost, governmental response cost, natural resources damage, property damage, personal injury or penalty) arising out of, relating to or resulting from (a) the presence of any Hazardous Substance, or release into the environment by any Acquired Company of any Hazardous Substance or (b) any violation of any Environmental Law by any Acquired Company.

"Environmental Law" means any applicable federal, state or local law or other legal requirement relating to pollution or protection of the environment, including any law relating to any emission, discharge, release or possible release of any pollutant, contaminant, hazardous or toxic material, substance or waste into air, surface water, groundwater or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any pollutant, contaminant or hazardous or toxic material, substance or waste.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means any (if any) corporation, trade or business (whether or not incorporated) that is under common control with any Acquired Company pursuant to section 414 of the Code.

"Escrow Agent" means Acquiom Clearinghouse LLC, a Delaware limited liability company (or, if such Person is unwilling or unable to serve in such role, then a substitute escrow agent reasonably acceptable to Buyer and Sellers' Representative), or any replacement thereof consistent with the terms of this Agreement and the Escrow Agreement.

"Escrow Agreement" is defined in Section 8.4(a).

"Estimated Consideration" is defined in Section 2.2.

"Estimated Funded Indebtedness" is defined in Section 2.3(a)(3).

"Estimated Transaction Expenses" is defined in Section 2.3(a)(4).

"Event" means any event, change, effect, development, occurrence, circumstance, condition, matter or state of facts.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Faegre Drinker" is defined in Section 9.13.

"Final Allocation" is defined in Section 2.4(g).

"Final Funded Indebtedness" is defined in Section 2.4(a).

"Final Net Working Capital and Cash" is defined in Section 2.4(a).

"Final Transaction Expenses" is defined in Section 2.4(a).

"Financial Statements" is defined in Section 3.4(a)(2).

"Forward-Looking Statements" is defined in Section 4.5.

"FTC" is defined in Section 5.1(a).

"Funded Indebtedness" means any indebtedness (a) for borrowed money of the Acquired Companies that is funded and outstanding and any amounts owed under interest rate swap agreements related to such borrowed money or (b) under leases classified as capital leases on the

Interim Balance Sheet. For the avoidance of doubt, Funded Indebtedness shall not include amounts under any letter of credit or surety bond that has not been drawn upon and, if drawn upon, shall only include the outstanding amount required to be repaid due to such draw.

"GAAP" means generally accepted United States accounting principles as have been consistently applied by the Acquired Companies.

"Governmental Authority" means any: (a) nation, state, county, city, district or other similar jurisdiction; (b) federal, state, local or foreign government; (c) governmental or quasi-governmental authority (including any governmental agency, branch, commission, bureau, instrumentality, department, official, entity, court or tribunal); or (d) body or other Person entitled by Applicable Law to exercise any administrative, executive, judicial, legislative, police, regulatory or Taxing authority or power.

"Hazardous Substance" means any pollutant, contaminant, hazardous substance, hazardous waste or petroleum or fraction thereof, and any other chemical, waste, substance or material listed in or regulated by any Environmental Law as hazardous or toxic.

"Hitt Trust" is defined in the Recitals.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Income Tax" means any Tax based upon or measured by gross or net receipts of gross or net income (including any Tax in the nature of minimum taxes, tax preference items and alternative minimum taxes) and including any obligation arising pursuant to the application of Treasury Regulation section 1.1502-6 or any similar provision of any Applicable Law regarding any Tax (but, for the avoidance of doubt, not including any sales, use, stamp, duty, value added, business, goods and services, property, transfer, recording, documentary, conveyancing or similar Tax).

"Indebtedness" means any liability under or for any of the following, in each case to the extent any related amount is actually owed: (a) indebtedness for borrowed money (including a guaranty of such owed amount); (b) indebtedness evidenced by a note, debenture, deed of trust or mortgage; (c) letter of credit or surety bond (but only to the extent such letter of credit or surety bond has been drawn upon and then only the outstanding amount required to be paid due to such draws); (d) capital lease; or (e) additional interest, fee or other expense regarding any of the foregoing; provided, however, that in each case "Indebtedness" will not mean: (1) any of the foregoing to the extent existing as the result of any act of Buyer or any Affiliate of Buyer before or in connection with Closing (including in connection with any financing of any amount to be paid by Buyer hereunder or post-Closing financing); (2) the obligation to have in place or to collateralize any of the foregoing items; or (3) any trade payable incurred in the Ordinary Course of Business of the applicable Acquired Company.

"Initial Consideration" is defined in Section 2.1.

"Intellectual Property" means any trademark, service mark, trade name, trade dress, goodwill, patent, inventions, copyright, design, logo, formula, invention, domain name, website, trade secret, know how, confidential information, mask work or software (including any registration, application or renewal regarding any of the foregoing).

"Interim Balance Sheet" is defined in Section 3.4(a)(2).

"Interim Balance Sheet Date" is defined in Section 3.4(a)(2).

"Interim Financial Statements" is defined in Section 3.4(a)(2).

"IRS" means the United States Internal Revenue Service.

"Knowledge" has the following meaning: (a) an individual will have "Knowledge" of a particular fact or other matter if such individual is actually consciously aware of such fact or matter; (b) an Acquired Company will have "Knowledge" of a particular fact or other matter if Jeffrey Rief, Henry Hitt, Retterath, Bienhorn or Bunker is actually consciously aware of such fact or matter; and (c) Buyer will have "Knowledge" of a particular fact or other matter if John Lee, Wayne Partington, or Robert Biggart is actually consciously aware of such fact or matter.

"Larson IA Holdings" is defined in the first paragraph of this Agreement.

"Larson Iowa" is defined in the first paragraph of this Agreement.

"Larson Iowa Units" is defined in Section 1.1(a)(v).

"Larson Party" is defined in the Recitals.

"Larson SD" is defined in the first paragraph of this Agreement.

"Larson SD Holdings" is defined in the first paragraph of this Agreement.

"Larson SD Units" is defined in Section 1.1(a)(v).

"Leased Real Property" is defined in Section 3.10(a).

"LM Canada" is defined in the Recitals.

"LMC" is defined in the Recitals.

"LMC Warranty" is defined in the Recitals.

"Loss" means any liability, loss, penalty, judgment, interest, amounts paid in settlement, fine, award, cost or expense (including any reasonable attorney's fee or expense) or damage.

"Major Contract" is defined in Section 3.8(a).

"Net Working Capital" means an amount equal to (x) the consolidated current assets of the Acquired Companies (other than Cash) in the categories set forth on Exhibit 10.1, *minus* (y) the consolidated current liabilities of the Acquired Companies in the categories set forth on Exhibit 10.1, in each case determined as of the NWC Effective Time and in accordance with GAAP, as consistently applied in the preparation of the Interim Balance Sheet, except as set forth on Exhibit 10.1. The Parties acknowledge and agree that Exhibit 10.1 sets forth an illustration of the calculation of Net Working Capital (including the various components and line items of Net Working Capital) assuming that the Closing Date had occurred on September 30, 2020. Also, for avoidance of

doubt, the Scheduled 2020 Bonuses to be paid pursuant to Section 5.6(f) are current liabilities of the applicable Acquired Company and will reduce Net Working Capital.

"Non-Prevailing Party" is defined in Section 2.4(d).

"Notice of Disagreement" is defined in Section 2.4(b).

"NWC Effective Time" means 11:59 p.m. Central Time on the day immediately before the Closing Date.

"Old Plans" is defined in Section 5.6(b).

"Ordinary Course of Business" means any action (which includes, for this definition, any failure to take action), condition, circumstance or status of or regarding a Person that is consistent with the past practices of such Person and is taken or exists in the ordinary course of the normal operations of such Person.

"Organizational Document" means, for any Person: (a) the articles or certificate of incorporation, formation or organization (as applicable) and the by-laws or similar governing document of such Person; (b) any limited liability company agreement, partnership agreement, operating agreement, shareholder agreement, voting agreement, voting trust agreement or similar document of or regarding such Person; or (c) any other charter or similar document adopted or filed in connection with the incorporation, formation, organization or governance of such Person.

"Outside Date" is defined in Section 6.4(b).

"Owned Real Property" is defined in Section 3.10(a).

"Party" means each Target Company, Buyer, each Seller or the Sellers' Representative.

"Payoff Letters" is defined in Section 2.2.

"Paying Agent" is defined in Section 1.3(a).

"Payment Instructions" is defined in Section 1.3(a).

"Percentage" means, with respect to each Person set forth on Exhibit 10.2, the percentage set forth on Exhibit 10.2 with respect to such Person, as updated prior to Closing by the Target Companies; provided, however, that at all times the sum of the Percentages shall always equal 100%.

"Permit" means any license, approval, authorization, or permit from a Governmental Authority.

"Permitted Encumbrance" means any: (a) Encumbrance listed in the Target Company Disclosure Schedule (including if disclosed or otherwise described in any of the Financial Statements); (b) Encumbrance created by the express terms of any Major Contract; (c) any Encumbrance for current Taxes and assessments not yet delinquent or that may be paid without penalty; (d) any Encumbrance for Tax assessments and other charges or claims with respect to Taxes or assessments that are due and payable and the validity of which are being contested in good faith by appropriate proceedings and as to which appropriate reserves have been established in accordance

with GAAP; (e) recorded easements, rights-of-way, restrictions and other similar title Encumbrances; (f) easement, covenant, condition or restriction not of public record as to which no material violation or encroachment exists or, if such violation or encroachment exists, as to which the cure of such violation or encroachment would not materially interfere with the conduct of the business of the applicable Person; (g) zoning or other governmentally established Encumbrance; (h) pledge or deposit to secure any obligation under any workers or unemployment compensation law or to secure any other public or statutory obligation; (i) mechanic's, materialmen's, landlord's, carrier's, supplier's or vendor's lien or similar Encumbrance arising in the Ordinary Course of Business of the applicable Person that secures any amount that is not overdue for a period of more than 60 days or that is being contested in good faith; or (j) other imperfection of title or license or other Encumbrance that does not materially impair the conduct of the business of the applicable Person as presently conducted.

"Person" means any individual, partnership, corporation, limited liability company, association, joint stock company, trustee or trust, joint venture, unincorporated organization or any other business entity or association or any Governmental Authority.

"Plan" means an "employee benefit plan" (as such term is defined in section 3(3) of ERISA) and any other employee benefit plan, program, agreement, policy or similar arrangement, whether qualified or non-qualified, and whether or not written, including any: (a) pension, retirement, profit sharing, deferred compensation, bonus, stock option, stock purchase, phantom stock or incentive plan; (b) welfare or "fringe" benefits, including, vacation, severance, disability, medical, dental, life and other insurance, tuition, health care reimbursement, dependent care assistance, flexible spending account plan, cafeteria plan, regular in-kind gifts or other benefits; or (c) employment, consulting, engagement, retainer or golden parachute agreement or arrangement.

"Post-Closing Adjustment Escrow Amount" is defined in Section 2.3(a)(1).

"Pre-Closing Tax Period" means any Tax period ending on or before the Closing Date.

"Pre-Reorganization Iowa Shareholders" is defined in Section 1.1(a).

"Pre-Reorganization SD Shareholders" is defined in Section 1.1(a).

"Pre-Sale Communications" is defined in Section 9.13.

"Prevailing Party" is defined in Section 2.4(d).

"Proceeding" means any action, complaint, arbitration, audit, hearing, litigation, proceeding or suit, in each case that is commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Authority or arbitrator.

"Real Property" is defined in Section 3.10(a).

"Real Property Lease" is defined in Section 3.10(a).

"Representative Losses" is defined in Section 9.14(c).

"Restructuring" is defined in the Recitals.

"Retained Assets" is defined in Section 5.2(b)(4).

"Retterath" is defined in the Recitals.

"Rief Trust" is defined in the Recitals.

"Scheduled 2020 Bonuses" is defined in Section 5.6(f).

"SDBCA" is defined in Section 1.1(a)(v).

"SDLLCA" is defined in Section 1.1(a)(v).

"Seller" is defined in the Recitals.

"Sellers Expense Amount" is defined in Section 2.3(a)(2).

"Sellers' Representative" is defined in Section 9.14(a).

"Signing Date" is defined in the first paragraph of this Agreement.

"Statement" is defined in Section 2.4(a).

"Target Company" is defined in the Recitals. A Target Company which is converted into a limited liability company pursuant to the Restructuring will continue to be considered a Target Company after such conversion.

"Target Company Ancillary Document" means the certificate contemplated under Section 7.1(d).

"Target Company Disclosure Schedule" means the disclosure schedule delivered by the Target Companies to Buyer and made a part of this Agreement on the Signing Date.

"Target Company Material Adverse Effect" means any Event that, individually or in the aggregate together with all other Events, has had, or would reasonably be expected to have, a material adverse effect on the Business, results of operations or financial condition of the Acquired Companies, taken as a whole, other than any Event or Events to the extent resulting from one or more of the following: (a) the reaction (including subsequent actions) of any Person not a Party to any transaction contemplated herein (including the announcement thereof); (b) any event or condition generally affecting any of the industries in which any Acquired Company operates, the United States economy or any foreign economy as a whole in any location where, or with respect to which, the Acquired Companies have material operations; (c) any national or international political or social event or condition, including the engagement in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack; (d) the existence, occurrence or continuation of any force majeure events, pandemics (including COVID-19 and SARS-CoV-2), epidemics, earthquakes, floods, hurricanes, tropical storms, fires or other natural disasters or any national, international or regional calamity; (e) any change in financial, banking or securities markets (including any disruption thereof, any decline in the price of any security or any market index, or any change in interest rates); (f) compliance with any term of, or the taking of any action required by, this Agreement; (g) any change in GAAP or other accounting requirement or principle or any change in Applicable Law or the interpretation thereof; (h) any action

required to be taken under any Major Contract or Applicable Law; or (i) any failure by any Acquired Company to meet projections, guidance, milestones, forecasts or financial or operating predictions or measures; provided, however, that any Event or Events set forth in the foregoing clauses (b), (c) or (e) may be taken into account in determining whether there has been a Target Company Material Adverse Effect, but only to the extent such Event or Events have a materially disproportionate adverse effect on the Business, results of operations or financial condition of the Acquired Companies, taken as a whole, relative to other Persons operating in the same industry as the Acquired Companies.

"Target Net Working Capital" means the amount of $78,500,000.

"Target Company Plan" means a Plan sponsored by any Acquired Company or any ERISA Affiliate, or to which any Acquired Company or any ERISA Affiliate otherwise contributes or has contributed, or in which any employee of any Acquired Company or any ERISA Affiliate otherwise participates or has participated.

"Tax" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated or other tax of any kind, including any interest, fine, penalty or similar addition thereto.

"Tax Representative" is defined in Section 5.8(a).

"Tax Return" means any return, declaration, report, filing, claim for refund or information return or statement relating to any Tax, including any schedule or attachment thereto and any amendment thereof.

"Threatened" means, with respect to any matter, that a demand, notice or statement has been made or given, in writing, that states that such matter is being or will be asserted, commenced, taken or pursued.

"Transaction Consideration" is defined in Section 2.1.

"Transaction Deductions" means all items of loss, deduction or credit resulting from or attributable to (A) the repayment of Indebtedness at Closing or as contemplated by this Agreement, (B) any payment in the nature of compensation for U.S. federal Income Tax purposes to employees of any Acquired Company upon consummation of or in connection with the transactions contemplated hereby and (C) payment of legal, financial advisory, accounting and other fees and expenses of any Acquired Company in connection with the transactions contemplated hereby, including the Transaction Expenses, except to the extent that Sellers' Representative and Buyer determine that such fees and expenses are not properly deductible.

"Transaction Document" means, with respect to a Person, any document executed or delivered by or on behalf of such Person or any Affiliate of such Person, in connection with the execution and delivery of this Agreement or Closing, pursuant to the terms of this Agreement (but not including this Agreement).

"Transaction Expense" means any expense incurred by an Acquired Company prior to Closing in connection with the transactions contemplated herein (including attorneys', accountants', investment bankers' and other professionals' and third parties' fees and expenses and any severance, bonus, change-in-control or other similar employee benefit obligation arising as a result of the consummation of any such transaction).

"Transfer Tax" means any sales, use, value-added, business, goods and services, transfer (including any stamp duty or other similar tax chargeable in respect of any instrument transferring property), documentary, conveyancing or similar tax or expense or any recording fee, in each case that is imposed as a result of any transaction contemplated herein, together with any penalty, interest and addition to any such item with respect to such item.

"Upward Reconciliation Amount" is defined in Section 2.4(f)(1).

"WARN Act" means the Worker Adjustment and Retraining Notification Act of 1988, as amended.

[Signature Page to Follow]

IN WITNESS WHEREOF, each Party has executed and delivered this Equity Purchase Agreement effective as of the date first written above.

FORTUNE BRANDS DOORS, INC.

By:	/s/ Robert K. Biggart
Name:	Robert Biggart
Title:	Vice President & Assistant Secretary

LARSON MANUFACTURING COMPANY OF SOUTH DAKOTA, INC.

By: /s/ Jeffrey T. Rief
Name: Jeffrey T. Rief
Title: CEO

LARSON MANUFACTURING COMPANY OF IOWA, INC.,

By: /s/ Jeffrey T. Rief
Name: Jeffrey T. Rief
Title: CEO

LARSON SD HOLDINGS, INC.

By: /s/ Bill Retterath
Name: Bill Retterath
Title: CFO

LARSON IA HOLDINGS, INC.

By: /s/ Bill Retterath
Name: Bill Retterath
Title: CFO

AEI, LLC

By: /s/ Jeffery T. Rief
Name: Jeffrey T. Rief
Title: Manager

COMFORT BILT, LLC

By: /s/ Jeffery T. Rief
Name: Jeffrey T. Rief
Title: Manager

/s/ O. Dale Larson
O. DALE LARSON AS TRUSTEE OF THE O. DALE LARSON REVOCABLE TRUST U/A/D 4/7/92

/s/ Jeffrey T. Rief
JEFFREY T. RIEF AS TRUSTEE OF THE JEFFREY T. RIEF LIVING TRUST

/s/ Henry Hitt
HENRY HITT AS TRUSTEE OF THE HENRY HITT REVOCABLE TRUST UAD APRIL 25, 2019

/s/ Bill Retterath
BILL RETTERATH

/s/ Troy Bunker
TROY BUNKER

/s/ Dan Beinhorn
DAN BEINHORN

SHAREHOLDER REPRESENTATIVE SERVICES LLC (solely in its capacity as Sellers' Representative as agent for and on behalf of Sellers)

By: /s/ Sam Riffe
Name: Sam Riffe
Title: Managing Director

[Signature Page to Equity Purchase Agreement]

Exhibit 21

The following is a list of significant subsidiaries as of the date hereof and includes the state or other jurisdiction of incorporation. Except as indicated below, each subsidiary does business under its own name. The names of certain subsidiaries are omitted. Such subsidiaries would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary within the meaning of Item 601(b)(21)(ii) of Regulation S-K.

Name of Company	Place of Incorporation
Fortune Brands Doors, Inc.	Delaware
Therma-Tru Corp.	Ohio
Fiberon Holding Company LLC	Delaware
Fiber Composites, LLC	Delaware
MasterBrand Cabinets, Inc.	Delaware
Fortune Brands Global Plumbing Group Holdings II LLC	Delaware
Fortune Brands Global Plumbing Group Holdings III LLC	Delaware
Global Plumbing Group Holdings LLC	Delaware
Moen Incorporated	Delaware

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-188598, 333-177164, 333-177163, and 333-177145) and Form S-3 (No. 333-224612) of Fortune Brands Home & Security, Inc. of our report dated February 24, 2021 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ Pricewaterhouse Coopers

Chicago, IL
February 24, 2021

Exhibit 24

POWER OF ATTORNEY

Each of the undersigned, acting in the capacity or capacities stated next to their respective names below, constitute and appoint NICHOLAS I. FINK, PATRICK D. HALLINAN and ROBERT K. BIGGART, and each of them severally, as his or her true and lawful attorney-in-fact and agent, with full power of substitution, to sign for and in the name of the undersigned in the capacities indicated below, the Annual Report on Form 10-K of Fortune Brands Home & Security, Inc. for the fiscal year ended December 31, 2020, and any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents may lawfully do or cause to be done by virtue hereof.

Signature	Title	Date
/s/ Nicholas I. Fink Nicholas I. Fink	Chief Executive Officer (principal executive officer)	February 22, 2021
/s/ Patrick D. Hallinan Patrick D. Hallinan	Senior Vice President and Chief Financial Officer (principal financial officer)	February 22, 2021
/s/ Danny Luburic Danny Luburic	Vice President and Corporate Controller (principal accounting officer)	February 22, 2021
/s/ Amit Banati Amit Banati	Director	February 18, 2021
/s/ Irial Finan Irial Finan	Director	February 17, 2021
/s/ Ann F. Hackett Ann F. Hackett	Director	February 18, 2021
/s/ Susan S. Kilsby Susan S. Kilsby	Director	February 18, 2021
/s/ A. D. David Mackay A. D. David Mackay	Director	February 19, 2021
/s/ John G. Morikis John G. Morikis	Director	February 18, 2021
/s/ Jeffery S. Perry Jeffery S. Perry	Director	February 18, 2021
/s/ David M. Thomas David M. Thomas	Director	February 17, 2021
/s/ Ronald V. Waters, III Ronald V. Waters, III	Director	February 23, 2021

EXHIBIT 31.1

CERTIFICATION

I, Nicholas I. Fink, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2020 of Fortune Brands Home & Security, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Nicholas I. Fink

Nicholas I. Fink
Chief Executive Officer
Date: February 24, 2021

CERTIFICATION

I, Patrick D. Hallinan, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2020 of Fortune Brands Home & Security, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2021

/s/ Patrick D. Hallinan
Patrick Hallinan
Senior Vice President and
Chief Financial Officer

EXHIBIT 32

JOINT CEO/CFO CERTIFICATE REQUIRED
UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned, the Chief Executive Officer and the Senior Vice President and Chief Financial Officer of Fortune Brands Home & Security, Inc. (the “Company”), hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that the Annual Report of the Company on Form 10-K for the year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and the results of operations of the Company.

Dated: February 24, 2021

/s/ Nicholas I. Fink
Nicholas I. Fink
Chief Executive Officer

/s/ Patrick D. Hallinan
Patrick D. Hallinan
Senior Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Fortune Brands Home & Security, Inc. and will be retained by Fortune Brands Home & Security, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.