

MASONITE INTERNATIONAL CORP

Form 40-F

May 19, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 40-F

**REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

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

For the fiscal year ended December 31, 2003

Commission File Number 1-11796

Masonite International Corporation

(Exact name of Registrant as specified in its charter)

Premdor Inc.

(Former name of Registrant)

Ontario	2431	98-0377314
<i>(Province or other jurisdiction of incorporation or organization)</i>	<i>(Primary Standard Industrial Classification Code Number)</i>	<i>(I.R.S. Employer Identification No.)</i>

**1600 Britannia Road East
Mississauga, Ontario, Canada L4W 1J2
(905) 670-6500**

(Address and telephone number of Registrant's principal executive offices)

**Mr. Steve MacIsaac
Masonite Holdings, Inc.
One North Dale Mabry
Tampa, Florida 33609
(813) 877-2726**

*(Name, address (including zip code) and telephone number
(including area code) of agent for service in the United States)*

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

Title of each class

Name of each exchange on which registered

Common Shares, no par value

New York Stock Exchange and The Toronto Stock Exchange

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Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

For annual reports, indicate by check mark the information filed with this Form:

Annual information form Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

The Registrant had 54,433,799 Common Shares
Outstanding as at December 31, 2003

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

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 Exchange Act 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 [].

DOCUMENTS FILED WITH THIS FORM 40-F

1. Annual Information Form of the Registrant for the fiscal year ended December 31, 2003
2. Consolidated Audited Financial Statements of the Registrant as at and for the years ended on December 31, 2003 and 2002, including a reconciliation to United States generally accepted accounting principles
3. Management's Discussion and Analysis of Financial Condition and Results of Operations of the Registrant
4. Comments by Auditors for United States Readers on Canada-U.S. Reporting Difference

CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Registrant carried out an evaluation, under the supervision and with the participation of the Registrant's management, including the Registrant's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Registrant's disclosure controls and procedures are effective in timely alerting them to material information relating to the Registrant (including its consolidated subsidiaries) required to be included in the Registrant's periodic Securities and Exchange Commission filings. No significant changes were made in the Registrant's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed by the Registrant in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Registrant in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Registrant's management, including the Registrant's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Change in Internal Controls Over Financial Reporting

Masonite maintains a system of internal controls over financial reporting. There were no changes in Masonite internal controls that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Masonite's internal control over financial reporting.

AUDIT MATTERS

Audit Committee

The members of Masonite's audit committee are Howard L. Beck, John J. Berton, John M. Cassaday and Joseph L. Rotman. Each of the members of Masonite's audit committee is independent and financially literate for the purposes of applicable Canadian and U.S. securities legislation. Reference is made to Masonite's Management Information Circular dated March 26, 2004 relating to the Company's annual meeting of shareholders held on May 3, 2004 for information about the mandate of the audit committee and the experience of each member of the audit committee that is relevant to the performance of his responsibilities as an audit committee member.

The Board of Directors of the Company has determined that it has at least one audit committee financial expert serving on its audit committee. Mr. John Cassaday has been determined by the board of Masonite to meet the audit committee financial expert criteria prescribed by the Securities and Exchange Commission (SEC) and applicable Canadian regulatory requirements and is independent, as that term is defined by the New York Stock Exchange s listing standards applicable to Masonite and applicable Canadian regulatory requirements. The SEC has indicated

that the designation of Mr. Cassaday as an audit committee financial expert does not make Mr. Cassaday an expert for any purposes, impose any duties, obligations or liability on Mr. Cassaday, that are greater than those imposed on members of the audit committee and Board of Directors who do not carry this designation, or affect the duties, obligations or liability of any other member of the audit committee.

Audit and Related Fees

For the year ended December 31, 2003, fees for audit and related services provided by KPMG LLP, Masonite's independent external auditors to Masonite were \$1,130,000 (2002 - \$985,000). Non-audit fees paid to KPMG LLP relating to tax planning and compliance in 2003 were \$1,076,000 (2002 - \$925,000). Details are shown in the following table:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	<hr/>	<hr/>
Audit Fees	\$ 1,067,000	\$ 812,000
Audit Related Fees	\$ 63,000	\$ 173,000
Tax Fees	\$ 1,076,000	\$ 925,000
All Other Fees	Nil	Nil
	<hr/>	<hr/>
Total:	\$ 2,206,000	\$ 1,910,000
	<hr/>	<hr/>

Audit Fees

Audit fees were for professional services rendered by KPMG LLP for the audit of Masonite's annual financial statements and services provided in connection with statutory and regulatory filings or engagements. Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit of the annual statements and are not reported under *Audit Fees* above. These services primarily consisted of reviewing documents related to due diligence services for business acquisitions and business divestitures.

Tax Fees

Tax fees were for tax compliance, tax advice and tax planning professional services. These services consisted of tax compliance including the review of tax returns, and tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, value added tax and payroll tax).

All Other Fees

In 2003 and 2002, no fees for services were incurred other than those described above under *Audit Fees*, *Audit-Related Fees* and *Tax Fees*.

Pre-Approval Policies and Procedures

It is within the mandate of Masonite's audit committee to approve all audit and non-audit related fees. The audit committee has pre-approved specifically identified non-audit tax-related services, including tax compliance; the review of tax returns; and tax planning and advisory services relating to common forms of domestic and international taxation (i.e. income tax, capital tax, goods and services tax, value added tax and payroll tax). The audit committee will be informed routinely as to the non-audit services actually provided by the auditors pursuant to this pre-approval process. The auditors also present the estimate for the annual audit related services to the Committee for approval prior to undertaking the annual audit of the financial statements.

CODE OF ETHICS

Masonite has adopted a Code of Ethics for its Chief Executive Officer, Chief Financial Officer and directors and officers. The Code of Ethics is available on the Company's website at www.masonite.com and in print to any shareholder who requests them. All amendments to the code, and all waivers of a code with respect to any of the persons covered by it, will be posted on the Company's website and provided in print to any shareholder who requests them.

CORPORATE GOVERNANCE GUIDELINES

The Company has adopted corporate governance guidelines and established committees regarding such matters as, but not limited to: director qualification standards and responsibilities; access by directors to management and independent advisors; director compensation; and management succession. The guidelines and board committee charters are available on the Company's website at www.masonite.com. Although the Company files as a foreign private issuer in the United States, Masonite is in compliance with the listing requirements of the New York Stock Exchange as they apply to U.S. domestic issuers.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any material off-balance sheet arrangements other than those disclosed in notes 5, 7, 11 and 12 to the consolidated financial statements.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

See the disclosure "Contractual Obligation Payments Due by Period" in the Management's Discussion and Analysis of Financial Condition and Results of Operations filed herewith.

FORWARD-LOOKING STATEMENTS

This Form 40-F and other written reports and oral statements made by the Company may include forward-looking statements, all of which are subject to risks and uncertainties. One can identify these forward-looking statements by their use of words such as "expects", "plans", "will", "estimates", "intends", "forecasts", "projects" and other words of similar meaning, or by the fact that they do not relate strictly to historical or current facts. These statements are likely to address, but may not be limited to, the Company's growth strategy and financial results. Readers must carefully consider any such statements and should understand that many factors could cause actual results and developments to differ materially from the Company's forward-looking statements. These factors may include inaccurate assumptions and a broad variety of other known and unknown risks and uncertainties, including: general economic, market and business conditions; levels of construction and renovation activity; competition; financing risks; ability to manage expanding operations; commitments; new services; retention of key management personnel; environmental and other government regulation; and other factors. No forward-looking statement can be guaranteed and actual future results may vary materially. The Company disclaims any responsibility to update these forward-looking statements.

DOCUMENT 1

MASONITE INTERNATIONAL CORPORATION

ANNUAL INFORMATION FORM

May 3, 2004

TABLE OF CONTENTS

CORPORATE STRUCTURE	1
GENERAL DEVELOPMENT OF THE BUSINESS	2
THE BUSINESS	3
RISK FACTORS	11
DESCRIPTION OF CAPITAL STRUCTURE	13
MARKET FOR SECURITIES	13
DIVIDENDS	14
DIRECTORS AND OFFICERS	14
LEGAL PROCEEDINGS	16
TRANSFER AGENT AND REGISTRARS	16
AUDIT MATTERS	16
DISCLOSURE CONTROLS AND PROCEDURES	17
CODE OF ETHICS	18
CORPORATE GOVERNANCE GUIDELINES	18
OFF-BALANCE SHEET ARRANGEMENTS	18
ADDITIONAL INFORMATION	18
FORWARD-LOOKING STATEMENTS	18

MASONITE INTERNATIONAL CORPORATION

ANNUAL INFORMATION FORM

May 3, 2004

Except where the context otherwise requires, all references in this annual information form (AIF) to the Company are to Masonite International Corporation and its subsidiaries. In this AIF, references to \$ and Cdn.\$ are to United States and Canadian dollars, respectively, and unless otherwise indicated, the statistical and financial data contained in this AIF are presented as at December 31, 2003.

CORPORATE STRUCTURE

The Company was formed by articles of amalgamation under the *Business Corporations Act* (Ontario) on January 1, 2002 upon the amalgamation of Premdor Inc. and its wholly owned subsidiaries, Masonite International Corporation and Les Portes Centenaires Ltée. (the Amalgamation). The registered and principal office of the Company is located at 1600 Britannia Road East, Mississauga, Ontario, L4W 1J2. The Company s common shares trade on the Toronto Stock Exchange and the New York Stock Exchange under the symbol MHM .

Subsidiaries and Investments

(Florida) The following corporate structure chart illustrates the Company s material subsidiaries and investments as of May 3, 2004 and identifies their respective jurisdiction of incorporation and the percentage of voting securities beneficially owned, or over which control or direction is exercised by, the Company:

GENERAL DEVELOPMENT OF THE BUSINESS

General

Masonite International Corporation is one of the world's largest manufacturers of doors and door components. On January 1, 2002, as a result of the Amalgamation, Premdor Inc. (Premdor) changed its name to Masonite International Corporation (Masonite International). Masonite International is a unique, integrated, global building products company with its corporate headquarters in Mississauga, Ontario and its international administrative offices in Tampa, Florida. It operates over 75 facilities in 12 countries in North America, South America, Europe, Asia and Africa and has over 12,000 employees. The Company sells its products to customers in over 50 countries.

Nature of the Business

The principal business of the Company is the manufacture of doors, door components and door entry systems for new residential construction, home repair, renovation and remodeling and commercial use. The Company manufactures a broad line of interior doors, including standard residential flush, molded-facing, stile and rail, louvre and specially-ordered commercial and architectural doors. The Company also manufactures door components for internal use and sale to other door manufacturers. It also manufactures exterior residential steel and fiberglass doors and entry systems. These door products are manufactured, merchandised and sold to large distributors, jobbers, home centre chains and wholesale and retail building supply dealers across North America, South America, France, the United Kingdom, Europe and other countries in the Middle East and Asia. Doors, door components and door entry systems accounted for over 95% of the Company's total dollar sales in 2003, with other building products accounting for the balance.

Corporate History of the Company

The Company commenced business in 1955 in Toronto, Ontario as the purchasing division of a retail lumberyard. It began manufacturing doors in 1961. The Company's original product was a full line of flush doors. Over time, the Company introduced other wood doors, including louvre, stile and rail, plastic laminate, fire doors and pre-hung units.

From 1975 to 2000, the Company expanded worldwide, initially establishing and acquiring door manufacturers in Canada and then in the United States, the United Kingdom and France. During this period, the Company completed and integrated multiple acquisitions, including acquisitions of door component manufacturers, door manufacturers as well as logistical and fabrication centres. Through this period of growth, the Company increased its sales of interior residential doors and expanded its product line with architectural doors and steel and fiberglass exterior doors and entry systems.

Masonite Corporation

On August 31, 2001, the Company completed the acquisition of Masonite Corporation from International Paper Company for a purchase price including transaction costs of approximately \$427 million, of which approximately \$314 million was paid in cash and the remainder in the form of unsecured subordinated long-term debt.

Masonite Corporation is a global leader in engineered wood composite products, with manufacturing facilities in North America, Europe, Asia and Africa. Masonite Corporation's products include molded door facings, as well as hardboard and softboard for residential and commercial use. Masonite Corporation is the largest manufacturer of molded door facings in the world. Prior to its acquisition, Premdor was Masonite Corporation's single largest customer.

Masonite Corporation was founded in 1925 in Laurel, Mississippi by William H. Mason, whose objective was to utilize the vast available quantities of sawmill waste to manufacture a useable end product. Masonite Corporation's first major invention and successful product was hardboard, a conversion of wood fiber mat under intense heat and pressure into thin, dense, tough sheets used in the manufacture of a variety of products for

residential and commercial construction, retail and other applications. In the early 1970 s, Masonite Corporation began production of door facings, also known as door skins. In 1975, Masonite Corporation began the first commercial production of molded door facings. In 1996, Masonite Corporation s exploration of scaled production methodologies led to the acquisition of the FormTEC process, a unique method of manufacturing molded door facings on a micro-scale by molding already pressed thin MDF (medium density fiberboard) purchased from third-party suppliers.

Masonite International

In 2002, the Company purchased the remaining interest in four less than wholly-owned companies and acquired the shares of one door fabrication company. Consideration of \$25.9 million for these acquisitions was paid in a combination of cash, common shares of the Company and a note payable. The Company also made an equity investment in a door component manufacturing entity.

In 2003, the Company purchased 100% of the shares of a door pre-hanger for consideration of approximately \$3.5 million and increased its ownership percentage in a less than wholly owned subsidiary for cash consideration of approximately \$1.5 million. The net assets of the Lisbon Falls, Maine manufacturing facility that were acquired as part of the Masonite Corporation acquisition were disposed of in 2003. The Company also divested itself of another less than wholly owned entity.

In December 2003, the Company signed a definitive agreement to acquire the residential entry door business (the Stanley Purchase) of The Stanley Works. The purchase price was \$161 million and the transaction was completed on March 2, 2004. The residential entry door business acquired in the Stanley Purchase manufactures and pre-hangs steel and fiberglass residential entry doors and entry systems for sale primarily to the home improvement market in the United States. The Stanley Purchase will increase the Company s presence in the exterior products market and expand its position in the retail home improvement channel.

Financing History

In July 2001, the Company entered into an agreement to issue and sell 7,150,000 common shares for net proceeds of approximately \$63 million. In August 2001, the Company entered into a credit agreement with a banking syndicate providing for a \$685 million secured credit facility. Proceeds from these financings were used to pay the cash portion of the purchase price of Masonite Corporation, retire then existing senior debt and to provide working capital.

In July 2002, the Company completed a refinancing of its existing bank facilities and entered into an amended and restated credit agreement. At the closing of the refinancing, \$650 million was available to be drawn through a combination of term facilities having varying maturity dates and interest rates. The new bank facilities are secured by fixed and floating charges over substantially all of the Company s assets. The Company used the proceeds from the refinancing to repay existing indebtedness including the Company s subordinated long-term debt.

In order to finance the Stanley Purchase, the Company negotiated additional term borrowings of \$200 million under its existing bank facilities. These additional borrowings are on terms consistent with the July 2002 refinancing of the bank facilities.

THE BUSINESS

Corporate Strategy

Masonite International's primary objective is to increase shareholder value by pursuing strategic growth through focusing on one product line - doors - and expanding in all significant markets throughout the world. With manufacturing facilities in twelve countries and sales worldwide, Masonite International has continuously expanded through start-ups and acquisitions. It has increased sales in both domestic and export markets through innovative merchandising and marketing initiatives that emphasize quality, value and service. As demand for building products increases outside North America, Masonite International's manufacturing, merchandising and sales expertise enable it to become one of the leading door companies in the world. As part of this strategy, the Company's goal was to

- 3 -

achieve substantial vertical integration and this has been accomplished to a large extent through the acquisition of Masonite Corporation.

Geographic Region Financial Information

The following geographic segment financial information summarizes the Company's sales and operating income for each of the years in the three year period ended December 31, 2003 and is derived from the segmented information disclosure in the Company's audited consolidated financial statements:

	Year Ended December 31 ¹		
	(dollars in thousands)		
	2003	2002	2001
Sales:			
North America	\$1,434,055	\$1,325,396	\$1,191,674
Europe and other	380,573	320,018	249,616
Intersegment	(37,390)	(25,898)	(19,688)
	<u> </u>	<u> </u>	<u> </u>
	\$1,777,238	\$1,619,516	\$1,421,602
	<u> </u>	<u> </u>	<u> </u>
Segment Operating			
Income:			
North America	\$ 179,142	\$ 165,331	\$ 118,814
Europe and other	37,580	28,511	12,423
	<u> </u>	<u> </u>	<u> </u>
	\$ 216,722	\$ 193,842	\$ 131,237
	<u> </u>	<u> </u>	<u> </u>

Note:

(1) In 2003, the Company modified the manner in which the geographic segments are aggregated. The comparative figures have been reclassified to conform with the new basis of presentation.

Products

Demand for doors is derived from three principal sources: new residential construction; repair, renovation and remodelling activity; and commercial renovation and construction. According to information available to the Company, housing starts (in thousands) in the Company's major markets were as follows:

Year	United States	Canada	United Kingdom	France
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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2003	1,847	217	185	314
2002	1,705	205	183	302
2001	1,602	163	179	305

The Company estimates that in 2003 over 50% of its door sales were from repair, renovation and remodelling, with the balance from new construction (both residential and commercial). This estimate is based on the experience of management in the industry and the Company's knowledge of its customers, however it is not based on any empirical data.

- 4 -

The Company sells interior and exterior products, with interior products accounting for approximately 66% of the total sales revenue in 2003 and exterior products accounting for the balance of the Company's total sales revenue during 2003. While substantially all interior doors are made with wood and related materials such as hardboard (including molded and flat door facings), the use of wood in exterior doors in North America has declined over the last decade as a result of the introduction of steel and fiberglass doors. The Company's exterior doors are made primarily of steel or fiberglass. The Company offers an extensive range of interior and exterior doors, which are available in a wide variety of sizes, styles and types.

The Company has become a leader in merchandising and advertising through point of sale displays, in-store merchandising and training programs, magazine and television advertisements, regional flyer programs and do-it-yourself videos for doors distributed through home centres. In addition, the Company advertises its products at numerous events, including trade shows in Canada, the United States, Europe, Asia and the Middle East. The Company has also developed consumer brochures, including a planning guide and do-it-yourself products to assist the consumer in the purchase and installation of doors, as well as training programs designed to assist home centre sales personnel with product knowledge and sales strategies.

The following is a description of the principal types of doors and door components that the Company sells and manufactures worldwide:

<i>Molded Flush</i>	Doors made by sandwiching a wood or MDF frame and a hollow or solid core between two molded hardboard facings. These doors are used for closets, bedrooms, bathrooms and hallways.
<i>Flush</i>	Doors made by sandwiching a wood or MDF frame and a hollow or solid core between two facings made of plywood or hardboard (flat or embossed). These doors are used for closets, bedrooms, bathrooms and hallways.
<i>Stile and Rail</i>	Doors made from solid wood with vertical stiles, horizontal rails and wood panels, which have been cut, milled and assembled from a single type of lumber such as clear pine, knotty pine, oak and mahogany. Where glass panels are inserted between stiles and rails, the resulting door when used for interior purposes is referred to as a French door. For interior purposes these doors are primarily used for hallways, room dividers, closets and bathrooms. For exterior purposes these doors are used as entry doors and decorative glass inserts (lites) are often inserted into these doors.
<i>Louvre</i>	Doors with sloping horizontal slats that admit light and air. These doors are used for hallways, closets, and cabinets and as interior and exterior decorative shutters.
<i>Bifold</i>	Hinged folding doors (typically molded flush, flush or louvre doors) used in closets or as room dividers.
<i>Plastic Laminate</i>	Flush doors with a plastic veneer facing, generally for commercial use.
<i>Pre-hung</i>	Interior and exterior doors sold together with door frames as units.
<i>Architectural</i>	Doors custom-designed to architectural specifications generally for commercial uses such as in office buildings, hotels, schools and hospitals.

Steel

Exterior doors made by assembling two interlocking steel facings (panelled or flat) or attaching two steel facings to a wood or steel frame and injecting the core with polyurethane insulation.

Fiberglass

Exterior doors made by assembling two fiberglass facings to a wood frame or composite material and injecting the core with

polyurethane insulation.

<i>Entry Systems</i>	Exterior doors sold pre-assembled in a door frame, with or without lites and transoms.
<i>Molded Door Facings</i>	Thin sheets of molded hardboard produced by grinding or defibrating wood chips, adding resin and other ingredients, creating a thick fibrous mat composed of dry wood fibers and pressing the mat between two steel dies to form a molded sheet, the surface of which may be smooth or may contain a wood grain pattern. Following pressing, molded door facings are trimmed, painted and shipped to door manufacturing plants where they are mounted on frames to produce molded doors.
<i>Door Framing Material</i>	Commonly referred to as cut stock. Wood or MDF components that constitute the frame on which interior and exterior door facings are attached.
<i>Door Lites</i>	Decorative and non-decorative insulated glass inserts primarily used in exterior doors.
<i>Door Core</i>	A molded fibre mat used in the construction of solid core doors.

The Company's sales and marketing efforts have increasingly reflected an international focus. In 1990, door sales outside of North America represented 3% of aggregate door sales. In 2003, door sales outside North America represented approximately 23% of the Company's aggregate door sales. This increase in sales abroad is the result of acquisitions and internal growth. The Company expects that a major portion of the future growth of its door business will be in the United States, Europe, Mexico, the Middle East, South America and Asia.

Intangible Properties

In North America, doors are marketed primarily under the Masonite® brand. Other North American brands include: Premdor®, Johnson, Rigi-Dor®, Castlegate®, Evergreen®, Timbergrain®, Oakcraft™, ArTek™, PREMVU®, Royal Mahogany™, Span-Rite™, Safe N Sound®, Premcor™, Crown™, Miami, Palazzo™, Bellagio™, Capri™, and Mohawk®.

In Europe, doors are marketed under the Premdor®, Ekem™, Fonmarty™, Magri™, Monnerie™, Batimetal™ and Crosby® brands.

The Company uses these trademarks and trade names in the conduct of its business as well as the other trademarks and trade names mentioned throughout this AIF. The Company considers the use of trademarks and trade names to be important in the development of product awareness, and for differentiating products from competitors and between customers.

Distribution

Generally the major customers of door manufacturers are two-step distributors, one-step distributors, jobbers, home centre chains and wholesale and retail building supply dealers. Retail building supply dealers, lumberyards and home centre chains are the primary merchandisers to the do-it-yourself segment of the repair, renovation and remodelling segment. Builders and contractors purchase their door requirements primarily from one-step distributors, lumberyards, home centre chains and wholesale building supply dealers.

In Canada, the Company sells primarily to a distributor that resells the Company's products to wholesale and retail building supply dealers, lumber yards, home centre chains and pre-hangers (suppliers of doors to builders on an installed basis), some of which are members of buying groups. In the United States, the Company's major customers are two-step distributors, one-step distributors and large home centre chains. In Europe, the Company's customers are home centre chains and large distributors. Door manufacturers in Canada, the United States, France and the United Kingdom rely primarily on a combination of their own sales forces and independent sales agents.

Manufacturing Process

The manufacture of wood doors is primarily an assembly operation. Cut-stock is either acquired from suppliers or cut by the door manufacturer. If necessary, the cut-stock is milled into the various dimensions required for different door styles and sizes. The assembly process varies by type of door, from a relatively simple process for flush doors, where the door facings are glued to a wood frame, to more complex procedures for the many pieces of a louvre or stile and rail door. Following assembly, doors are trimmed to their final specifications. Short set-up times, proper production scheduling and co-ordinated material movement are essential to achieve a flexible process capable of producing a wide range of door types, sizes, materials and styles. The Company makes use of flexible manufacturing operations together with scalable logistics primarily through the use of common carriers to fill customers' orders and to manage its investment in finished goods inventory.

The manufacture of insulated steel and fiberglass doors consists primarily of the fabrication of steel sheets embossed into panel or flush door facings and fiberglass door facings which are then assembled onto a wood or steel framing system. The doors are then injected with polyurethane insulation.

The Company's prehanging operations utilise interior flush doors, stile and rail and louvre doors, and exterior doors from the Company's manufacturing operations and provide value added fabrication and logistical services to big box retail home centres throughout North America. These value added products include interior

doors which are machined for hinges, passage and lock sets and then incorporated in a frame. Exterior doors are incorporated in a frame and may include decorative glass lites (inserts).

Research and Development

The acquisition of Masonite Corporation in 2001 added significantly to the Company's R&D capabilities. R&D activities are concentrated in the Company's 141,000 sq. ft. research centre in West Chicago, Illinois. During 2003, the centre employed approximately 70 people engaged in various forms of research and product development.

Management believes the Company is a leader in technological innovation and development in doors, door components and door entry systems and the manufacturing processes involved in making such products. Management is of the view that R&D is a major competitive advantage for the Company intends to capitalize on its leadership in this area through the development of more new and innovative products.

As an integrated manufacturer, the Company believes that it is well positioned to take advantage of the growing global demand for a variety of molded door facing designs. This capability is particularly important outside North America where newer molded door designs are rapidly replacing traditional wood doors. The Company has an internal capability, unique in the industry, to create new molded door facing designs and manufacture its own molds for use in its own facilities. This provides the Company with the ability to develop proprietary designs that enjoy a strong identity in the marketplace; more flexibility in meeting customer demand; quicker reaction time in the production of new designs or design changes; and greater responsiveness to customer needs. This capability also enables the Company to develop and implement product and process improvements with respect to the production of molded door facings and doors which enhance production efficiency and reduce costs.

The Company estimates that it spent approximately \$8.1 million on R&D during 2003. During 2003 R&D activities resulted in the development of new products that contain patent or patent pending features, including BELLEVILLE™ fiberglass exterior doors in both smooth and a realistic new textured finish; BARRINGTON® fiberglass exterior doors with the same textured finish as BELLEVILLE™, deep embossed panels and raised moldings; and a post formed molded flat panel interior door launched in the Asian markets that has design flexibility.

Competition

In 2003, Masonite established its all-products strategy, which provides retail and wholesale customers with an innovative and wide range of doors. The Stanley Purchase reinforces this strategy initiative as it presents opportunities for more effective global procurement of raw materials, product development and standardization and more efficient logistics. Moreover, the all-products strategy provides customers in the home improvement and wholesale sectors with the opportunity to market Masonite's complete product line. Management believes that this strategy initiative is a significant competitive advantage.

With respect to doors, the Company faces significant competition in North America. Competitors based in Canada include other manufacturers that distribute on a national basis as well as smaller regional manufacturers, which focus on particular products. There is a significantly greater number of competitors based in the United States. Doors are shipped from Canada to the United States and *vice versa*.

In Europe, the Company faces significant competition from a number of regionally based competitors and imports.

Competition in both North America and Europe is vigorous because firms manufacture similar products using similar raw materials and manufacturing methods and there has been excess capacity in the industry.

The Company is the largest manufacturer of molded door facings in the world. The rest of the industry is comprised of one other large, integrated door manufacturer and a number of smaller regional manufacturers. Competition in the molded door facing business is based on quality, price, product design, logistics and customer service. The Company produces molded door facings to meet its own requirements and serves as an important

supplier to the door industry at large. The Company manufactures molded door facings at its facilities in Mississippi, Ireland, Chile and South Korea.

New Products

The Company has launched several new interior residential doors in the past several years: the SAFE N SOUND®, RENOVATOR®, PREMWOOD®, the MASONITE® French Door Series and pre-painted and pre-stained embossed panel doors. The SAFE N SOUND door is a solid core Molded Panel Series door. The inclusion of the solid core greatly enhances the door's sound deadening and fire resistance properties when compared to standard hollow core doors. In 1998, the Company developed PREMCOR®, a patented new core material for SAFE N SOUND doors. The SAFE N SOUND door has the look and feel of a solid wood door at a much lower price. The RENOVATOR series door is a low priced French door having the look of a higher priced stile and rail wood French door. PREMWOOD is a door with a simulated mahogany, oak or birch wood grain surface which is designed to be stained or painted and is an alternative to mahogany, oak or birch veneer doors. Since their launch, these products have been enhanced and modified to keep pace with changing consumer preferences. The Masonite French Door Series is a series of glazed doors targeted at the mid and upper-priced door market.

The pre-painted and pre-stained embossed panel doors are used in manufactured housing, new construction, remodelling and emerging market applications. This product utilizes medium density fibreboard door facings with an embossed pattern and is economically priced.

During 2000, the Company launched several new exterior door products which enhanced the wide range of exterior doors available in the industry. These products include a new line of smooth fiberglass exterior doors marketed as ARTEK® and PREMVU® Series Patio Units.

In 2001, the Company launched the MASONITE® HD High-Definition Steel and PREMVU® Flush-Glazed Steel Door lines. For interior doors, the new Two Panel Roman Smooth Molded Panel Series Door was introduced. The Company also released MASONITE® wainscot, an easy to install high-definition raised panel wainscot system.

In 2002, Masonite launched the full-line of OAKCRAFT™ and ARTEK Flush-Glazed Fiberglass Doors. OAKCRAFT and ARTEK twenty minute fire-rated doors were also launched. The PALAZZO™ SERIES molded panel interior door was released as well. PALAZZO doors feature a high definition panel profile and raised moulding. The PALAZZO door is the first of its kind in molded wood fibre technology.

In 2003, two new lines of fiberglass doors were released by the Company. The BELLEVILLE™ line of smooth and textured fiberglass doors have high-definition panels and several unique designs. The patent-pending wood-grain texture of BELLEVILLE doors allows for easy finishing and the ability to replicate the appearance of real wood doors. The BARRINGTON® line of textured fiberglass doors combines the same patent-pending wood-grain texture with high-definition panel profiles and raised mouldings to replicate the look of authentic hardwood doors. BARRINGTON doors are factory-glazed with SPECIALTY™ decorative glass and custom, matching glazing frames.

Raw Materials

The primary raw materials used in the manufacture of wood doors are cut-stock (lumber cut to the various sizes required for components) and door facings. Cut-stock is purchased from suppliers located on the west coast of North America, the southern United States, Europe, eastern Canada, southern Africa and South America. Plywood door facings are imported principally from the Far East, although certain types of hardwood veneer door facings are sourced in North America. Hardboard door facings are purchased from suppliers in Canada, the United States, South America and Africa. Molded hardboard door facings are produced at the Company's facilities in the United States,

Ireland, Chile and South Korea. Subject to seasonal fluctuations, the lead time required for shipments of plywood is approximately three months and ranges from two to eight weeks for cut-stock and hardboard (molded and flat).

- 9 -

The primary raw materials used in the manufacture of steel and fiberglass doors are steel, fiberglass, polyurethane and cut-stock, which are primarily purchased from suppliers in North America.

Periodically, certain commodity components used in the manufacture of doors rise in price significantly or decrease in availability. The risk associated with rising material prices is that these costs may not be passed on to customers. The risk related to the unavailability of certain raw materials is that the Company's sales will decline if alternative door products manufactured by the Company are not accepted in the marketplace. The Company manages these risks by developing strategic relationships with suppliers and customers, aggressively searching for substitute components, developing new products and seeking alternative sources of supply.

Door prices are influenced primarily by the cost of raw materials, which usually comprise more than 50% of the total cost of the finished product. Principal raw materials are commodity items that are purchased from suppliers located in North America, the Far East, Europe, South America and Africa. In most cases, purchases from those suppliers are priced in U.S. dollars or euros. Fluctuations in the cost of raw materials and currency exchange rates affect all manufacturers of doors.

Seasonality

The building products industry in North America is seasonal, particularly in the northeast and midwest regions of the United States and in most regions of Canada. Masonite experiences a decrease in sales in the first quarter of each year and also, to a certain extent, in the fourth quarter of each year. During the winter months in certain regions in which Masonite operates, inclement weather generally reduces building activity, particularly in the new construction market. However, the Company's expansion into areas of more moderate climate (e.g., the southeast, southern and western part of the United States, France, the United Kingdom and Mexico) and its focus on the repair, renovation and remodelling segment, which is less seasonal than new construction, has helped to smooth this influence on operations in the first and fourth quarters. Additional product and geographic diversification resulting from the 2001 acquisition of Masonite Corporation has also positively affected the seasonality of the Company's results.

Significant Customers

Masonite sells its products worldwide to a large number of customers. However, one customer accounted for approximately 21% of Masonite's sales in North America in 2003. Due to the depth and breadth of the relationship with this customer, which operates in multiple geographic regions and which sells a variety of Masonite's products, management of the Company believes that this relationship is likely to continue. Management is of the view that, while this customer may be able to purchase and sell some products that compete with Masonite's products, it would be difficult to replace all of Masonite's products and services with those of competitors due to the range of products sold to this customer and number of locations serviced.

Environmental Protection

The geographic breadth of the Company's facilities subject it to environmental laws, regulations and guidelines in a number of jurisdictions, including Canada, the United States, the United Kingdom, France, Mexico, Chile, Costa Rica, Israel, South Africa, South Korea and the Republic of Ireland. Such laws, regulations and guidelines relate to, among other things, the discharge of contaminants into water and air and onto land, the storage and handling of certain regulated materials used in the manufacturing process and the disposal of wastes.

The Company's efforts to ensure environmental compliance include the review of its operations on an ongoing basis utilizing in-house staff and on a selective basis by specialized environmental consultants. Environmental assessments are conducted as part of the Company's due diligence review prior to the completion of acquisitions.

Based on recent experience and current projections, environmental protection requirements are not expected to have a material effect on the Company's business, capital expenditures, operations or financial position.

- 10 -

Employees

As at December 31, 2003, the Company employed approximately 12,000 employees of which an estimated 3,167 were covered by collective bargaining agreements. The employees covered by collective bargaining agreements are situated at the Company's operations as follows:

Facility	Number of Employees	Collective Agreement Expiration Date
<i>Canada:</i>		
Bethierville, Quebec	143	2005
Lac-Megantic, Quebec	162	2006
Lac-Megantic, Quebec	260	2007
Mississauga, Ontario	224	2004
New Westminster, British Columbia	119	2004
St. Romuald, Quebec	58	2005
St-Hyacinthe, Quebec	230	2007
Vaughan, Ontario	44	2005
<i>United States:</i>		
Mobile, Alabama	63	2007
Richmond, Indiana	83	2007
South Bend, Indiana	43	2010
Laurel, Mississippi	577	2005
Toledo, Ohio	82	2005
Vandalia, Ohio	48	2006
<i>Europe: ⁽¹⁾</i>		
Barnsley, England	242	n/a
Bridgwater, England	66	n/a
Hedingham, England	41	n/a
Middlesbrough, England	9	n/a
Bordeaux, France	80	n/a
Douvres, France	32	n/a
Orange, France	12	n/a
<i>Africa:</i>		
South Africa	549	2004

Note:

- (1) Employees in many European countries participate in industry-wide unions with centralized bargaining. Local issues are, however, typically negotiated separately.

RISK FACTORS

Masonite's strategic focus is to expand and strengthen its core business of the manufacture and sale of doors, door components and door entry systems. A market strategy that specializes in a relatively narrow product line in the building products industry may amplify the risks inherent in the general effect of economic cycles on

residential construction and remodeling. The Company has addressed this risk by broadening its customer base within various markets and by expanding market coverage through geographic diversification. During the 1990 s, the Company acquired numerous facilities in France and the United Kingdom. The completion of the Masonite Corporation acquisition in 2001 added operations in Ireland, South Africa and South Korea. The Company s 2003 annual sales outside North America exceeded \$340 million.

The Masonite group of companies obtains labour and certain raw materials locally, denominated primarily in their respective domestic currencies. Other raw materials are imported and prices are often quoted in U.S. dollars or in the domestic currency in the country where the facility operates. The Company and most of its subsidiaries sell a significant portion of their products within their respective domestic markets at domestic market selling prices. In situations where import or export commitments are undertaken, the Company or its subsidiaries may periodically enter into foreign exchange contracts to manage and reduce the risk associated with foreign currency fluctuations. Gains and losses on such contracts offset losses and gains on transactions being hedged. The amount of foreign exchange contracts matches estimated foreign currency risks over a specified period of time. Masonite s policy is not to utilize exchange contracts for trading or speculative purposes. The amount of foreign exchange contracts outstanding at December 31, 2003 are described in Note 1(m) of the Company s consolidated financial statements for the year ended December 31, 2003.

Certain commodity components used in the manufacture of doors and door components periodically experience significant changes in price or availability. If material cost increases are persistent, there is no assurance that Masonite will be able to sufficiently increase its selling prices. In recent years, the Company has responded to fluctuating prices and decreasing availability of certain materials by seeking sources for similar components from other geographic regions, developing or purchasing substitute alternative materials and raising selling prices on various products in certain markets.

Almost 100% of the Company s interest-bearing debt outstanding at December 31, 2003 carried a floating interest rate. Therefore, in the normal course of business Masonite is exposed to changes in short-term interest rates that can create uncertainty and variability in its cash flows. To mitigate this exposure, in September 2001 the Company entered into a five-year interest rate swap agreement converting a notional \$250 million of floating-rate debt into fixed-rate debt that currently bears interest at 7.96%. In August 2002, another five-year interest rate swap agreement was executed converting an additional \$75 million of amortizing floating-rate debt into a fixed-rate debt at 5.72%. After giving effect to these interest rate swaps, approximately 38% of the Company s outstanding interest-bearing debt carries a floating interest rate and the other 62% is effectively at fixed rate swaps as at December 31, 2003. Management believes that these interest rate swaps are highly effective in achieving their economic purpose.

The geographic breadth of the Company s facilities subjects it to environmental laws, regulations and guidelines in a number of countries. Such laws, regulations and guidelines relate to, among other things, the discharge of contaminants into water and air and onto land, the storage and handling of certain regulated materials used in the manufacturing process, and the disposal of wastes. The Company s efforts to ensure environmental compliance include the review of its existing operations on an ongoing basis by its own environmental staff and on a selective basis by external environmental consultants. In addition, environmental assessments are conducted as part of Masonite s due diligence review prior to completion of acquisitions. Masonite has not incurred any significant costs relating to environmental matters in prior years. Future expenditures required to comply with any changes in environmental requirements are anticipated to be undertaken as part of the Company s ongoing capital investment program that is primarily designed to improve the efficiency of various manufacturing processes.

Masonite provides credit to its customers in the normal course of business. The Company performs credit evaluations of its customers and maintains reserves for potential credit losses which, when realized, have been within the range of management s expectations. Masonite does not generally require collateral. The Company s credit risk is

minimized by undertaking transactions with a large number of customers in various countries. Masonite's credit risk is further minimized by insuring a significant portion of total trade receivables through the use of credit insurance.

DESCRIPTION OF CAPITAL STRUCTURE

The Company's authorized share capital consists of an unlimited number of common shares and unlimited number of first preference shares, issuable in series. Holders of common shares are entitled to one vote per share at meetings of shareholders and to receive dividends, if, as and when declared by the Board of Directors of the Company. In the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, after payment of all outstanding debts, the remaining assets of the Company available for distribution would be distributed rateably to the holders of common shares. Holders of common shares have no pre-emptive redemption, exchange or conversion rights. The preferred shares are non-voting, except as required by law, and will have such rights, privileges and restrictions as will be fixed by the Board of Directors of the Company at the time of issue. The preferred shares are entitled to preference over the common shares with respect to the payment of dividends and distribution of the assets of the Company in the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or other distribution of assets of the Company for purposes of winding up its affairs. At December 31, 2003, there were 54,433,799 common shares issued and outstanding and no preferred shares outstanding.

The Company's senior secured debt has been rated as follows:

Agency ⁽¹⁾	Rating Assigned	Description of Rating
Standard and Poors	BB+	Outlook Stable
Moody's Investor Service	Ba2	Outlook Positive

Notes:

- (1) An obligation noted BB or Ba2 is less vulnerable to non-payment than other speculative issues. However it faces major ongoing uncertainties or exposures to adverse business, financial or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The plus sign shows the relative standing within the rating category. A stable outlook means that the rating is not likely to change. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

MARKET FOR SECURITIES

The Company's common shares are listed on the Toronto Stock Exchange and on the New York Stock Exchange under the symbol MHM. The price ranges and trading volume of Masonite's common shares in 2003 on the Toronto Stock Exchange were as follows:

Month	Toronto Stock Exchange (Cdn. \$)		
	High	Low	Volume
January	\$29.39	\$26.00	2,731,399
February	\$29.09	\$24.32	4,161,827
March	\$24.70	\$20.15	3,736,536
April	\$24.60	\$20.35	4,346,768
May	\$27.65	\$24.25	4,526,741

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June	\$28.95	\$26.78	3,074,057
July	\$28.85	\$25.80	2,255,638
August	\$29.20	\$27.40	3,117,349

- 13 -

Month	Toronto Stock Exchange (Cdn. \$)		
	High	Low	Volume
September	\$32.00	\$29.00	3,062,059
October	\$32.81	\$29.00	4,241,179
November	\$32.05	\$29.10	2,420,514
December	\$34.80	\$31.02	4,183,150

DIVIDENDS

The Company has not declared any dividends on its common shares in each of the three most recently completed financial years. The payment of dividends is at the discretion of the Board of Directors of the Company, which considers earnings, capital requirements, the financial condition of the Company and other relevant factors including restrictions contained in the Company's banking facilities.

DIRECTORS AND OFFICERS

The following table and associated notes set forth as at the date hereof the name of each director and executive officer of the Company and certain senior managers of the Company, their municipalities of residence, their respective principal occupations and, where applicable, their membership on an executive committee of the Board of Directors. In addition, it indicates the period during which each director has served as a director of the Company or its predecessor. As a group, based on information provided to the Company by each director, executive officer, and senior manager listed below, all directors, executive officers and the senior managers of the Company listed below beneficially owned, directly or indirectly, or exercised control or direction over a total of 1,981,996 common shares of the Company as at May 3, 2004, representing approximately 3.6% of the outstanding common shares. The terms of office of all of the directors of the Company expire at the termination of the next annual meeting of shareholders or until their successor is elected or appointed.

Name and municipality of residence	Director of the Company or its predecessor since	Present principal occupation (including positions held with the Company) ⁽⁵⁾
HOWARD L. BECK, Q.C. ⁽¹⁾⁽²⁾⁽³⁾ <i>Toronto, Ontario, Canada</i>	April 24, 1990	Corporate Director
JOHN J. BERTON ⁽¹⁾ <i>Toronto, Ontario, Canada</i>	May 13, 1991	President, Starlaw Holdings Limited (private investment company)
JOHN M. CASSADAY ⁽¹⁾ <i>Toronto, Ontario, Canada</i>	August 3, 1993	President and Chief Executive Officer, Corus Entertainment Inc.
PETER A. CROSSGROVE, C.M. ⁽²⁾⁽³⁾ <i>Toronto, Ontario, Canada</i>	October 27, 1989	Chairman of Board, Corporate Director
FREDRIK S. EATON, O.C., O. Ont. ⁽³⁾ <i>Toronto, Ontario, Canada</i>	August 10, 1994	Chairman, White Raven Capital Corp. (holding company)
ALAN R. McFARLAND ⁽²⁾ <i>New York, New York, USA</i>	March 24, 1994	Managing Member, McFarland Dewey & Co., LLC (investment bank)
PHILIP S. ORSINO, F.C.A., O.C. <i>Toronto, Ontario, Canada</i>	October 27, 1989	President and Chief Executive Officer
JOSEPH L. ROTMAN ⁽¹⁾	May 27, 1994	Chairman and CEO, Roy-L Capital

Toronto, Ontario, Canada

SAUL M. SPEARS⁽³⁾
Toronto, Ontario, Canada

December 17, 1979

Corporation (private family investment
company)
Corporate Director

- 14 -

Name and municipality of residence	Director of the Company or its predecessor since	Present principal occupation (including positions held with the Company) ⁽⁵⁾
PAUL A. BERNARDS, C.A., C.P.A. <i>Toronto, Ontario, Canada</i>		Vice President and Corporate Controller
BRENDA L. BROGDEN, C.G.A. ⁽⁴⁾ <i>Terra Cotta, Ontario, Canada</i>		Director, Administration
WILFRED A. CURTIS <i>Toronto, Ontario, Canada</i>		Vice President, Risk Management
JAMES U. MORRISON <i>Tampa, Florida, USA</i>		Executive Vice President and Group Chief Operating Officer
LAWRENCE P. REPAR <i>Mississauga, Ontario, Canada</i>		Executive Vice President and Group Chief Operating Officer
LEO E. SERIO, C.G.A. <i>Oakville, Ontario, Canada</i>		Vice President, Sourcing and Procurement
ROBERT V. TUBBESING, C.A. <i>Toronto, Ontario, Canada</i>		Vice President and Chief Financial Officer
HARLEY ULSTER, L.L.B. <i>Toronto, Ontario, Canada</i>		Executive Vice President, General Counsel and Corporate Secretary
CHRISTOPHER A. VIROSTEK, C.A., C.P.A. ⁽⁴⁾ <i>Mississauga, Ontario, Canada</i>		Controller, Financial Reporting

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Human Resource and Compensation Committee.
- (3) Member of the Nominating and Corporate Governance Committee.
- (4) Senior Manager.
- (5) Information provided with respect to the principal occupation of each director is based on information furnished to the Company by such director. All of the above directors and executive officers have held their present principal occupations or executive positions with the same or associated firms for the past five years, except as indicated below.

Paul A. Bernards	Prior to May 2000, Corporate Controller of the Company;
Brenda L. Brogden	Prior to May 2003, Director of Corporate Accounting of the Company;
James U. Morrison	Prior to September 2001, Executive Vice President and General Manager, Building and Industrial Products, Masonite Corporation;
Christopher A. Virostek	Prior to May 2003, Financial Controller of the Company and prior to March 2002, Audit Manager in public accounting practice

One director of the Company, Mr. J.L. Rotman, has been a director of other companies, which during the past ten years have been the subject of a cease trade or similar order while Mr.