

MASCO CORP /DE/
Form 10-Q
July 28, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2011

Commission file number: 1-5794

Masco Corporation

(Exact name of Registrant as Specified in its Charter)

Delaware

38-1794485

(State or Other Jurisdiction
of Incorporation)

(IRS Employer
Identification No.)

21001 Van Born Road, Taylor, Michigan

48180

(Address of Principal Executive Offices)

(Zip Code)

(313) 274-7400

(Registrant's telephone number, including area code)

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Shares Outstanding at July 25, 2011 |
|--|-------------------------------------|
| Common stock, par value \$1.00 per share | 357,900,000 |

**MASCO CORPORATION
INDEX**

| | Page No. |
|--|-----------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements: | |
| Condensed Consolidated Balance Sheets June 30, 2011 and December 31, 2010 | 1 |
| Condensed Consolidated Statements of Income for the Three Months and Six Months Ended June 30, 2011 and 2010 | 2 |
| Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010 | 3 |
| Consolidated Statements of Shareholders' Equity June 30, 2011 and 2010 | 4 |
| Notes to Condensed Consolidated Financial Statements | 5-19 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 20-26 |
| Item 4. Controls and Procedures | 27 |
| PART II. OTHER INFORMATION | 28 |
| Item 1. Legal Proceedings | 28 |
| Item 1A. Risk Factors | 28 |
| Item 6. Exhibits | 29 |
| Signature | 30 |

MASCO CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
June 30, 2011 and December 31, 2010
(In Millions, Except Share Data)

| | June 30, 2011 | December 31, 2010 |
|---|--------------------------|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash investments | \$ 1,611 | \$ 1,715 |
| Receivables | 1,188 | 888 |
| Prepaid expenses and other | 131 | 129 |
| Inventories: | | |
| Finished goods | 493 | 393 |
| Raw material | 307 | 246 |
| Work in process | 101 | 93 |
| | 901 | 732 |
| Total current assets | 3,831 | 3,464 |
| Property and equipment, net | 1,698 | 1,737 |
| Goodwill | 2,399 | 2,383 |
| Other intangible assets, net | 266 | 269 |
| Other assets | 224 | 287 |
| Total assets | \$ 8,418 | \$ 8,140 |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes payable | \$ 65 | \$ 66 |
| Accounts payable | 921 | 602 |
| Accrued liabilities | 814 | 819 |
| Total current liabilities | 1,800 | 1,487 |
| Long-term debt | 4,027 | 4,032 |
| Deferred income taxes and other | 1,054 | 1,039 |
| Total liabilities | 6,881 | 6,558 |
| Commitments and contingencies | | |
| EQUITY | | |
| Masco Corporation's shareholders' equity: | 348 | 349 |

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Common shares, par value \$1 per share Authorized shares: 1,400,000,000; issued and outstanding:

2011 347,500,000; 2010 348,600,000

Preferred shares authorized: 1,000,000; issued and outstanding: 2011 None; 2010 None

| | | |
|---|----------|----------|
| Paid-in capital | 37 | 42 |
| Retained earnings | 628 | 720 |
| Accumulated other comprehensive income | 302 | 273 |
| Total Masco Corporation s shareholders equity | 1,315 | 1,384 |
| Noncontrolling interest | 222 | 198 |
| Total equity | 1,537 | 1,582 |
| Total liabilities and equity | \$ 8,418 | \$ 8,140 |

See notes to condensed consolidated financial statements.

MASCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
For the Three Months and Six Months Ended June 30, 2011 and 2010
(In Millions Except Per Common Share Data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | \$ 2,022 | \$ 2,048 | \$ 3,794 | \$ 3,900 |
| Cost of sales | 1,490 | 1,502 | 2,837 | 2,862 |
| Gross profit | 532 | 546 | 957 | 1,038 |
| Selling, general and administrative expenses | 441 | 427 | 845 | 841 |
| Operating profit | 91 | 119 | 112 | 197 |
| Other income (expense), net: | | | | |
| Interest expense | (64) | (67) | (127) | (125) |
| Impairment charge for financial investments | | (33) | | (33) |
| Other, net | 31 | (3) | 52 | (1) |
| | (33) | (103) | (75) | (159) |
| Income before income taxes | 58 | 16 | 37 | 38 |
| Income tax expense | 38 | 4 | 51 | 22 |
| Net income (loss) | 20 | 12 | (14) | 16 |
| Less: Net income attributable to noncontrolling interest | (12) | (9) | (24) | (20) |
| Net income (loss) attributable to Masco Corporation | \$ 8 | \$ 3 | \$ (38) | \$ (4) |
| Earnings (loss) per common share attributable to Masco Corporation: | | | | |
| Basic: | | | | |
| Net income (loss) | \$.02 | \$.01 | \$ (.11) | \$ (.02) |
| Diluted: | | | | |
| Net income (loss) | \$.02 | \$.01 | \$ (.11) | \$ (.02) |
| Amounts attributable to Masco Corporation: | | | | |
| Net income (loss) | \$ 8 | \$ 3 | \$ (38) | \$ (4) |

See notes to condensed consolidated financial statements.

MASCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the Six Months Ended June 30, 2011 and 2010
(In Millions)

| | Six Months Ended | |
|--|-------------------------|-------------|
| | June 30, | |
| | 2011 | 2010 |
| CASH FLOWS FROM (FOR) OPERATING ACTIVITIES: | | |
| Cash provided by operations | \$ 123 | \$ 212 |
| (Increase) in receivables | (293) | (204) |
| (Increase) in inventories | (151) | (122) |
| Increase in accounts payable and accrued liabilities, net | 290 | 181 |
| | | |
| Net cash (for) from operating activities | (31) | 67 |
| | | |
| CASH FLOWS FROM (FOR) FINANCING ACTIVITIES: | | |
| Increase in debt | | 2 |
| Payment of debt | (2) | (2) |
| Credit Agreement costs | (1) | (9) |
| Issuance of Notes, net of issuance costs | | 494 |
| Retirement of Notes | | (359) |
| Purchase of Company common stock | (30) | (45) |
| Dividend payment to noncontrolling interest | (18) | (15) |
| Cash dividends paid | (54) | (54) |
| | | |
| Net cash (for) from financing activities | (105) | 12 |
| | | |
| CASH FLOWS FROM (FOR) INVESTING ACTIVITIES: | | |
| Capital expenditures | (67) | (62) |
| Proceeds from disposition of: | | |
| Marketable securities | 49 | |
| Other financial investments | 15 | 2 |
| Property and equipment | 10 | 6 |
| Purchases of other financial investments | (6) | |
| Other, net | 3 | (13) |
| | | |
| Net cash from (for) investing activities | 4 | (67) |
| | | |
| Effect of exchange rate changes on cash and cash investments | 28 | (41) |
| | | |
| CASH AND CASH INVESTMENTS: | | |

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| | | |
|-------------------------|----------|----------|
| Decrease for the period | (104) | (29) |
| At January 1 | 1,715 | 1,413 |
| At June 30 | \$ 1,611 | \$ 1,384 |

See notes to condensed consolidated financial statements.

3

MASCO CORPORATION and Consolidated Subsidiaries (Unaudited)
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
for the periods ended June 30, 2011 and June 30, 2010

(In Millions, Except Per Share Data)

| | Total | Common Shares (\$1 par value) | Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Noncontrolling Interest |
|--|-----------------|--|----------------------------|------------------------------|---|------------------------------------|
| Balance, January 1, 2010 | \$ 2,817 | \$ 350 | \$ 42 | \$ 1,871 | \$ 366 | \$ 188 |
| Net (loss) income | 16 | | | (4) | | 20 |
| Cumulative translation adjustments | (131) | | | | (100) | (31) |
| Unrealized (loss) on marketable securities, net of income tax benefit of \$4 | (8) | | | | (8) | |
| Unrecognized prior service cost and net loss, net of income tax of \$1 | 4 | | | | 4 | |
| Total comprehensive loss | (119) | | | | | |
| Shares issued | (1) | 1 | (2) | | | |
| Shares retired: | | | | | | |
| Repurchased | (45) | (3) | (42) | | | |
| Surrendered (non-cash) | (5) | | (5) | | | |
| Cash dividends declared | (54) | | | (54) | | |
| Dividend payment to noncontrolling interest | (15) | | | | | (15) |
| Stock-based compensation | 30 | | 30 | | | |
| Balance, June 30, 2010 | \$ 2,608 | \$ 348 | \$ 23 | \$ 1,813 | \$ 262 | \$ 162 |
| Balance, January 1, 2011 | 1,582 | 349 | 42 | 720 | 273 | 198 |
| Net (loss) income | (14) | | | (38) | | 24 |
| Cumulative translation adjustments | 80 | | | | 62 | 18 |
| Unrealized (loss) on marketable securities, net of income tax of \$ | (38) | | | | (38) | |
| Unrecognized prior service cost and net loss, net of income tax of \$ | 5 | | | | 5 | |
| Total comprehensive income | 33 | | | | | |
| Shares issued | | 2 | (2) | | | |
| Shares retired: | | | | | | |

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| | | | | | | | |
|---|-----------------|---------------|--------------|---------------|---------------|-----------|------------|
| Repurchased | (30) | (2) | (28) | | | | |
| Surrendered (non-cash) | (7) | (1) | (6) | | | | |
| Cash dividends declared | (54) | | | (54) | | | |
| Dividend payment to noncontrolling interest | (18) | | | | | | (18) |
| Stock-based compensation | 31 | | 31 | | | | |
| Balance, June 30, 2011 | \$ 1,537 | \$ 348 | \$ 37 | \$ 628 | \$ 302 | \$ | 222 |

See notes to consolidated financial statements.

MASCO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Organization Consolidation And Presentation Of Financial Statements Disclosure

A. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments, of a normal recurring nature, necessary to present fairly its financial position as at June 30, 2011 and the results of operations for the three months and six months ended June 30, 2011 and 2010 and cash flows and shareholders' equity for the six months ended June 30, 2011 and 2010. The condensed consolidated balance sheet at December 31, 2010 was derived from audited financial statements.

Recently Issued Accounting Pronouncements

Effective January 1, 2011, the Company adopted new accounting guidance which addresses how to determine whether a sales arrangement involves multiple deliverables or contains more than one unit of accounting, and how the sales arrangement consideration should be allocated among the separate units of accounting. The Company evaluated this new guidance and the adoption did not have an impact on the Company's financial position or its results of operations.

MASCO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

Goodwill And Intangible Assets Disclosure

B. The changes in the carrying amount of goodwill for the six months ended June 30, 2011, by segment, were as follows, in millions:

| | Gross Goodwill At June 30, 2011 | Accumulated Impairment Losses | Net Goodwill At June 30, 2011 |
|-----------------------------------|--|--|--|
| Cabinets and Related Products | \$ 590 | \$ (364) | \$ 226 |
| Plumbing Products | 549 | (340) | 209 |
| Installation and Other Services | 1,819 | (762) | 1,057 |
| Decorative Architectural Products | 294 | | 294 |
| Other Specialty Products | 980 | (367) | 613 |
| Total | \$ 4,232 | \$ (1,833) | \$ 2,399 |

| | Gross Goodwill At Dec. 31, 2010 | Accumulated Impairment Losses | Net Goodwill At Dec. 31, 2010 | Other (A) | At June 30, 2011 |
|-----------------------------------|--|--|--|----------------------|---------------------------------|
| Cabinets and Related Products | \$ 587 | \$ (364) | \$ 223 | \$ 3 | \$ 226 |
| Plumbing Products | 536 | (340) | 196 | 13 | 209 |
| Installation and Other Services | 1,819 | (762) | 1,057 | | 1,057 |
| Decorative Architectural Products | 294 | | 294 | | 294 |
| Other Specialty Products | 980 | (367) | 613 | | 613 |
| Total | \$ 4,216 | \$ (1,833) | \$ 2,383 | \$ 16 | \$ 2,399 |

(A) Other principally includes the effect of foreign currency translation.

Other indefinite-lived intangible assets were \$186 million and \$185 million at June 30, 2011 and December 31, 2010, respectively, and principally included registered trademarks. The carrying value of the Company's definite-lived intangible assets was \$80 million (net of accumulated amortization of \$78 million) at June 30, 2011 and \$84 million (net of accumulated amortization of \$75 million) at December 31, 2010, and principally included customer relationships and non-compete agreements.

MASCO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

Depreciation And Amortization Expense

C. Depreciation and amortization expense was \$137 million for both the six months ended June 30, 2011 and 2010.

Fair Value Disclosures

D. The Company has maintained investments in available-for-sale securities and a number of private equity funds, principally as part of its tax planning strategies, as any gains enhance the utilization of any current and future tax capital losses. Financial investments included in other assets were as follows, in millions:

| | June 30, 2011 | December 31, 2010 |
|---------------------------------|------------------------------|----------------------------------|
| Auction rate securities | \$ 22 | \$ 22 |
| TriMas Corporation common stock | | 40 |