

MASCO CORP /DE/
Form 10-Q
April 28, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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

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(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. x Yes o 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). x Yes o 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 x Accelerated filer o Smaller reporting company o
Non-accelerated filer o (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). o Yes x 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 March 31, 2015 |
|--|--------------------------------------|
| Common stock, par value \$1.00 per share | 347,595,200 |

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CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

March 31, 2015 and December 31, 2014

(In Millions, Except Share Data)

| | March 31, 2015 | December 31, 2014 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash investments | \$ 1,578 | \$ 1,383 |
| Short-term bank deposits | 197 | 306 |
| Receivables | 1,248 | 1,040 |
| Deferred income taxes | 219 | 244 |
| Prepaid expenses and other | 74 | 71 |
| Inventories: | | |
| Finished goods | 467 | 425 |
| Raw material | 291 | 294 |
| Work in process | 105 | 100 |
| | 863 | 819 |
| Total current assets | 4,179 | 3,863 |
| Property and equipment, net | 1,106 | 1,139 |
| Goodwill | 1,878 | 1,884 |
| Other intangible assets, net | 158 | 145 |
| Other assets | 147 | 136 |
| Total assets | \$ 7,468 | \$ 7,167 |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes payable | \$ 506 | \$ 505 |
| Accounts payable | 1,019 | 950 |
| Accrued liabilities | 682 | 756 |
| Total current liabilities | 2,207 | 2,211 |
| Long-term debt | 3,418 | 2,919 |
| Other liabilities | 770 | 803 |
| Deferred income taxes | 114 | 106 |
| Total liabilities | 6,509 | 6,039 |
| Commitments and contingencies | | |
| EQUITY | | |
| Masco Corporation's shareholders' equity: | | |
| Common shares, par value \$1 per share Authorized shares: 1,400,000,000; issued and outstanding: 2015 - 342,600,000; 2014 - 345,000,000 | 343 | 345 |
| Preferred shares authorized: 1,000,000; issued and outstanding: 2015 - None; 2014 - None | | |
| Paid-in capital | | |
| Retained earnings | 606 | 690 |

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| | | |
|--|----------|----------|
| Accumulated other comprehensive loss | (180) | (111) |
| Total Masco Corporation's shareholders' equity | 769 | 924 |
| Noncontrolling interest | 190 | 204 |
| Total equity | 959 | 1,128 |
| Total liabilities and equity | \$ 7,468 | \$ 7,167 |

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the Three Months Ended March 31, 2015 and 2014

(In Millions Except Per Common Share Data)

| | Three Months Ended March 31, | |
|---|------------------------------|----------|
| | 2015 | 2014 |
| Net sales | \$ 2,018 | \$ 1,965 |
| Cost of sales | 1,450 | 1,418 |
| Gross profit | 568 | 547 |
| Selling, general and administrative expenses | 397 | 395 |
| Operating profit | 171 | 152 |
| Other income (expense), net: | | |
| Interest expense | (56) | (56) |
| Other, net | 1 | (3) |
| | (55) | (59) |
| Income from continuing operations before income taxes | 116 | 93 |
| Income taxes | 43 | 5 |
| Income from continuing operations | 73 | 88 |
| Loss from discontinued operations | | (2) |
| Net income | 73 | 86 |
| Less: Net income attributable to noncontrolling interest | 9 | 12 |
| Net income attributable to Masco Corporation | \$ 64 | \$ 74 |
| Income per common share attributable to Masco Corporation: | | |
| Basic: | | |
| Income from continuing operations | \$.18 | \$.21 |
| Loss from discontinued operations | | (.01) |
| Net income | \$.18 | \$.21 |
| Diluted: | | |
| Income from continuing operations | \$.18 | \$.21 |
| Loss from discontinued operations | | (.01) |
| Net income | \$.18 | \$.21 |
| Amounts attributable to Masco Corporation: | | |
| Income from continuing operations | \$ 64 | \$ 76 |
| Loss from discontinued operations | | (2) |
| Net income | \$ 64 | \$ 74 |

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

For the Three Months Ended March 31, 2015 and 2014

(In Millions)

| | Three Months Ended March 31, | |
|---|------------------------------|-------|
| | 2015 | 2014 |
| Net income | \$ 73 | \$ 86 |
| Less: Net income attributable to noncontrolling interest | 9 | 12 |
| Net income attributable to Masco Corporation | \$ 64 | \$ 74 |
| Other comprehensive loss, net of tax: | | |
| Cumulative translation adjustment | (96) | (4) |
| Amortization of pension prior service cost and net loss | 4 | 3 |
| Other comprehensive loss | (92) | (1) |
| Less: Other comprehensive loss attributable to noncontrolling interest | (23) | (1) |
| Other comprehensive (loss) income attributable to Masco Corporation | \$ (69) | \$ |
| Total comprehensive (loss) income | \$ (19) | \$ 85 |
| Less: Total comprehensive (loss) income attributable to noncontrolling interest | (14) | 11 |
| Total comprehensive (loss) income attributable to Masco Corporation | \$ (5) | \$ 74 |

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Three Months Ended March 31, 2015 and 2014

(In Millions)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2015 | 2014 |
| CASH FLOWS FROM (FOR) OPERATING ACTIVITIES: | | |
| Cash provided by operations | \$ 144 | \$ 121 |
| Increase in receivables | (244) | (227) |
| Increase in inventories | (56) | (75) |
| Increase (decrease) in accounts payable and accrued liabilities, net | 4 | (63) |
| Net cash for operating activities | (152) | (244) |
| CASH FLOWS FROM (FOR) FINANCING ACTIVITIES: | | |
| Purchase of Company common stock | (103) | (39) |
| Cash dividends paid | (32) | (27) |
| Issuance of notes, net of issuance costs | 497 | |
| Net cash from (for) financing activities | 362 | (66) |
| CASH FLOWS FROM (FOR) INVESTING ACTIVITIES: | | |
| Capital expenditures | (32) | (26) |
| Acquisition of businesses, net of cash acquired | (26) | (2) |
| Proceeds from disposition of: | | |
| Other financial investments | 3 | 2 |
| Property and equipment | 3 | 5 |
| Short-term bank deposits | 141 | 84 |
| Purchases of: | | |
| Short-term bank deposits | (63) | (69) |
| Other, net | (15) | |
| Net cash from (for) investing activities | 11 | (6) |
| Effect of exchange rate changes on cash and cash investments | (26) | (1) |
| CASH AND CASH INVESTMENTS: | | |
| Increase (decrease) for the period | 195 | (317) |
| At January 1 | 1,383 | 1,223 |
| At March 31 | \$ 1,578 | \$ 906 |

See notes to condensed consolidated financial statements.

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MASCO CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Unaudited)

For The Three Months Ended March 31, 2015 and 2014

(In Millions, Except Per Share Data)

| | Total | Common Shares (\$1 par value) | Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest |
|-----------------------------------|----------|-------------------------------------|--------------------|----------------------|--|----------------------------|
| Balance, January 1, 2014 | \$ 787 | \$ 349 | \$ 16 | \$ 79 | \$ 115 | \$ 228 |
| Total comprehensive income | 85 | | | 74 | | 11 |
| Shares issued | (3) | 2 | (5) | | | |
| Shares retired: | | | | | | |
| Repurchased | (39) | (2) | (9) | (28) | | |
| Surrendered (non-cash) | (14) | | (14) | | | |
| Cash dividends declared | (27) | | | (27) | | |
| Stock-based compensation | 12 | | 12 | | | |
| Balance, March 31, 2014 | \$ 801 | \$ 349 | \$ | \$ 98 | \$ 115 | \$ 239 |
| Balance, January 1, 2015 | \$ 1,128 | \$ 345 | \$ | \$ 690 | \$ (111) | \$ 204 |
| Total comprehensive (loss) income | (19) | | | 64 | (69) | (14) |
| Shares issued | (5) | 3 | (8) | | | |
| Shares retired: | | | | | | |
| Repurchased | (106) | (4) | | (102) | | |
| Surrendered (non-cash) | (16) | (1) | | (15) | | |
| Cash dividends declared | (31) | | | (31) | | |
| Stock-based compensation | 8 | | 8 | | | |
| Balance, March 31, 2015 | \$ 959 | \$ 343 | \$ | \$ 606 | \$ (180) | \$ 190 |

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. ACCOUNTING POLICIES

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments, of a normal recurring nature, necessary to present fairly our financial position as at March 31, 2015, our results of operations, comprehensive (loss) income, cash flows, and changes in shareholders' equity for the three months ended March 31, 2015 and 2014. The condensed consolidated balance sheet at December 31, 2014 was derived from audited financial statements.

Recently Issued Accounting Pronouncements: In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-8 (ASU 2014-8) Reporting of Discontinued Operations and Disclosure of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies the related disclosure requirements. On January 1, 2015, we adopted the ASU 2014-8. The adoption of the new standard did not have an impact on our financial position or results of operations.

In February 2015, the FASB issued Accounting Standards Update 2015-02 (ASU 2015-02) Consolidation (Topic 810) Amendments to the Consolidations Analysis, which modifies certain aspects of both the variable interest and voting models. ASU 2015-2 is effective for us for annual periods beginning January 1, 2016. We are currently evaluating the impact the adoption of this new standard will have on our financial position or results of operations.

In April 2015, the FASB issued Accounting Standards Update 2015-03 (ASU 2015-03) Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs, that requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. ASU 2015-3 is effective for us for annual periods beginning January 1, 2016. We do not expect that the adoption of the new standard will have a material impact on our financial position.

B. DISCONTINUED OPERATIONS

On September 30, 2014, we announced a plan to spin off 100 percent of our Installation and Other Services businesses into an independent, publicly-traded company (to be named TopBuild Corp.) through a tax-free distribution of the stock of TopBuild Corp. to our shareholders. The transaction is expected to be completed in mid-2015. For the three months ended March 31, 2015, we have incurred \$4 million of costs and charges related to this transaction. Under generally accepted accounting principles, the Installation and Other Services businesses are included in continuing operations until the transaction is completed.

C. ACQUISITIONS

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In the first quarter of 2015, we acquired an aquatic fitness business for approximately \$26 million in cash in the Plumbing Products segment. This acquisition will allow our spa business to expand its wellness products platform, open new channels of distribution and access a new customer base.

The results of this acquisition are included in the condensed consolidated financial statements from the date of acquisition.

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MASCO CORPORATION

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

D. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended March 31, 2015, by segment, were as follows, in millions:

| | Gross Goodwill | | Accumulated | | Net Goodwill | |
|-----------------------------------|----------------|-------|-------------|---------|---------------|-------|
| | At | | Impairment | | At | |
| | Mar. 31, 2015 | | Losses | | Mar. 31, 2015 | |
| Cabinets and Related Products | \$ | 240 | \$ | (59) | \$ | 181 |
| Plumbing Products | | 525 | | (340) | | 185 |
| Installation and Other Services | | 1,806 | | (762) | | 1,044 |
| Decorative Architectural Products | | 294 | | (75) | | 219 |
| Other Specialty Products | | 983 | | (734) | | 249 |
| Total | \$ | 3,848 | \$ | (1,970) | \$ | 1,878 |

| | Gross Goodwill | | Accumulated | | Net Goodwill | | Net Goodwill | | | | | |
|-----------------------------------|----------------|-------|-------------|---------|---------------|-------|--------------|----------|---------------|-------|----|-------|
| | At | | Impairment | | At | | At | | | | | |
| | Dec. 31, 2014 | | Losses | | Dec. 31, 2014 | | Acquisitions | Other(A) | Mar. 31, 2015 | | | |
| Cabinets and Related Products | \$ | 240 | \$ | (59) | \$ | 181 | \$ | | \$ | 181 | | |
| Plumbing Products | | 531 | | (340) | | 191 | | 9 | (15) | 185 | | |
| Installation and Other Services | | 1,806 | | (762) | | 1,044 | | | | 1,044 | | |
| Decorative Architectural Products | | 294 | | (75) | | 219 | | | | 219 | | |
| Other Specialty Products | | 983 | | (734) | | 249 | | | | 249 | | |
| Total | \$ | 3,854 | \$ | (1,970) | \$ | 1,884 | \$ | 9 | \$ | (15) | \$ | 1,878 |

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

Other indefinite-lived intangible assets were \$136 million and \$131 million at March 31, 2015 and December 31, 2014, respectively, and principally included registered trademarks. The carrying value of our definite-lived intangible assets was \$22 million (net of accumulated amortization of \$65 million) at March 31, 2015 and \$14 million (net of accumulated amortization of \$65 million) at December 31, 2014, and principally included customer relationships.

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MASCO CORPORATION

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

E. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense, including discontinued operations, was \$34 million and \$43 million for the three months ended March 31, 2015 and 2014, respectively. Depreciation and amortization expense included accelerated depreciation (relating to business rationalization initiatives) of \$1 million for the three months ended March 31, 2014.

F. FAIR VALUE OF FINANCIAL INVESTMENTS

We have maintained investments in available-for-sale securities, equity method investments and a number of private equity funds, principally as part of our 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:

| | March 31, 2015 | December 31, 2014 |
|-----------------------------|-------------------|----------------------|
| Auction rate securities | \$ 22 | \$ 22 |
| Total recurring investments | 22 | 22 |
| Equity method investments | 11 | 11 |
| Private equity funds | 12 | 14 |
| Other investments | 3 | 3 |
| Total | \$ 48 | \$ 50 |

Recurring Fair Value Measurements. The fair value of the auction rate securities held by us have been estimated, on a recurring basis, using a discounted cash flow model (Level 3 input). The significant inputs in the discounted cash flow model used to value the auction rate securities include: expected maturity of auction rate securities, discount rate used to determine the present value of expected cash flows and the assumptions for credit defaults, since the auction rate securities are backed by credit default swap agreements.

Our investments in auction rate securities included cost basis of \$19 million and pre-tax unrealized gains of \$3 million and had a recorded basis of \$22 million at both March 31, 2015 and December 31, 2014.

Non-Recurring Fair Value Measurements. During the three months ended March 31, 2015 and 2014, we did not measure any financial investments at fair value on a non-recurring basis, as there was no other-than-temporary decline in the estimated value of these investments.

We did not have any transfers between Level 1 and Level 2 financial assets in the three months ended March 31, 2015 or 2014.

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MASCO CORPORATION

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

Note F concluded:

Realized Gains (Losses). Income (loss) from financial investments, net, included in other, net, within other income (expense), net, was as follows, in millions:

| | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2015 | 2014 |
| Realized gains from private equity funds | \$ 2 | \$ 1 |
| Equity investments loss, net | | (2) |
| Total income (loss) from financial Investments, net | \$ 2 | \$ (1) |

Fair Value of Debt. The fair value of our short-term and long-term fixed-rate debt instruments is based principally upon modeled market prices for the same or similar issues or the current rates available to us for debt with similar terms and remaining maturities. The aggregate estimated market value of short-term and long-term debt at March 31, 2015 was approximately \$4.3 billion, compared with the aggregate carrying value of \$3.9 billion. The aggregate estimated market value of short-term and long-term debt at December 31, 2014 was approximately \$3.7 billion, compared with the aggregate carrying value of \$3.4 billion.

G. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to global market risk as part of our normal daily business activities. To manage these risks, we enter into various derivative contracts. These contracts include interest rate swap agreements, foreign currency exchange contracts and metals contracts intended to hedge our exposure to copper and zinc. We review our hedging program, derivative positions and overall risk management on a regular basis.

Interest Rate Swap Agreements. In March 2012, in connection with the issuance of \$400 million of debt, we terminated the interest rate swap hedge relationships that we had entered into in August 2011. These interest rate swaps were designated as cash flow hedges and effectively fixed interest rates on the forecasted debt issuance to variable rates based on 3-month LIBOR. Upon termination, the ineffective portion of the cash flow hedges of approximately \$2 million loss was recognized in our consolidated statement of operations in other, net. The remaining loss of approximately \$23 million from the termination of these swaps is being amortized as an increase to interest expense over the remaining term of the debt, through March 2022.

Foreign Currency Contracts. Our net cash inflows and outflows exposed to the risk of changes in foreign currency exchange rates arise from the sale of products in countries other than the manufacturing source, foreign currency denominated supplier payments, debt and other payables, and investments in subsidiaries. To mitigate this risk, we, including certain of our European operations, entered into foreign currency forward contracts and foreign currency exchange contracts.

Gains (losses) related to foreign currency forward and exchange contracts are recorded in our condensed consolidated statements of operations in other income (expense), net. In the event that the counterparties fail to meet the terms of the foreign currency forward contracts, our exposure is limited to the aggregate foreign currency rate differential with such institutions.

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MASCO CORPORATION

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

Note G concluded:

Metals Contracts. We have entered into several contracts to manage our exposure to increases in the price of copper and zinc. Gains (losses) related to these contracts are recorded in our condensed consolidated statements of operations in cost of sales.

The pre-tax (losses) gains included in our condensed consolidated statements of operations are as follows, in millions:

| | Three Months Ended | |
|----------------------------|---------------------------|-------------|
| | 2015 | 2014 |
| | March 31, | |
| Foreign currency contracts | | |
| Exchange contracts | \$ 4 | \$ (2) |
| Forward contracts | (4) | (1) |
| Metals contracts | (2) | (3) |
| Total loss | \$ (2) | \$ (6) |

We present our derivatives, net by counterparty due to the right of offset under master netting arrangements in receivables or accrued liabilities in the condensed consolidated balance sheet. The notional amounts being hedged and the fair value of those derivative instruments, on a gross basis, are as follows, in millions:

| | At March 31, 2015 | |
|----------------------------|--------------------------|----------------------|
| | Notional Amount | Balance Sheet |
| Foreign currency contracts | | |
| Exchange contracts | \$ 40 | |
| Receivables | | \$ 5 |
| Forward contracts | 61 | |
| Other assets | | 3 |
| Accrued liabilities | | (7) |
| Metals contracts | 76 | |
| Accrued liabilities | | (3) |

| | At December 31, 2014 | |
|--|-----------------------------|----------------------|
| | Notional Amount | Balance Sheet |

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| | | | |
|----------------------------|----|----|------|
| Foreign currency contracts | | | |
| Exchange contracts | \$ | 55 | |
| Receivables | | | \$ 6 |
| Forward contracts | | 79 | |
| Other assets | | | 2 |
| Accrued liabilities | | | (1) |
| Metals contracts | | 70 | |
| Accrued liabilities | | | (2) |

The fair value of all metals and foreign currency derivative contracts is estimated on a recurring basis, quarterly, using Level 2 inputs (significant other observable inputs).

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Changes in our warranty liability were as follows, in millions:

| | Three Months Ended March 31, 2015 | Twelve Months Ended December 31, 2014 |
|--|--|--|
| Balance at January 1 | \$ 135 | \$ 124 |
| Accruals for warranties issued during the period | 13 | 51 |
| Accruals related to pre-existing warranties | 2 | 11 |
| Settlements made (in cash or kind) during the period | (12) | (46) |
| Other, net (including currency translation) | (2) | (5) |
| Balance at end of period | \$ 136 | \$ 135 |

I. DEBT

On March 17, 2015, we issued \$500 million of 4.45% Notes (Notes) due April 1, 2025. The Notes are senior indebtedness and are redeemable at our option.

On March 28, 2013, we entered into a credit agreement (the Credit Agreement) with a bank group, with an aggregate commitment of \$1.25 billion and a maturity date of March 28, 2018.

Based on the limitations of the debt to total capitalization ratio covenant in the Credit Agreement, at March 31, 2015, we had additional borrowing capacity, subject to availability, of up to \$1.1 billion. Additionally, at March 31, 2015, we could absorb a reduction to shareholders equity of approximately \$579 million and remain in compliance with the debt to total capitalization covenant.

In order for us to borrow under the Credit Agreement, there must not be any default in our covenants in the Credit Agreement (i.e., in addition to the two financial covenants, principally limitations on subsidiary debt, negative pledge restrictions, legal compliance requirements and maintenance of properties and insurance) and our representations and warranties in the Credit Agreement must be true in all material respects on the date of borrowing (i.e., principally no material adverse change or litigation likely to result in a material adverse change, since December 31, 2012, in each case, no material ERISA or environmental non-compliance and no material tax deficiency). We were in compliance with all covenants and no borrowings have been made at March 31, 2015.

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MASCO CORPORATION

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

J. STOCK-BASED COMPENSATION

Our 2014 Long Term Stock Incentive Plan (the 2014 Plan) provides for the issuance of stock-based incentives in various forms to our employees and non-employee Directors. At March 31, 2015, outstanding stock-based incentives were in the form of long-term stock awards, stock options, phantom stock awards and stock appreciation rights. Pre-tax compensation expense and the related income tax benefit for these stock-based incentives were as follows, in millions:

| | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2015 | 2014 |
| Long-term stock awards | \$ 7 | \$ 11 |
| Stock options | 1 | 1 |
| Phantom stock awards and stock appreciation rights | 3 | |
| Total | \$ 11 | \$ 12 |
| Income tax benefit (37 percent tax rate - before valuation allowance) | \$ 4 | \$ 4 |

Long-Term Stock Awards. Long-term stock awards are granted to our key employees and non-employee Directors and do not cause net share dilution inasmuch as we continue the practice of repurchasing and retiring an equal number of shares in the open market. We granted 675,040 shares of long-term stock awards in the three months ended March 31, 2015.

Our long-term stock award activity was as follows, shares in millions:

| | Three Months Ended March 31, | |
|--|---------------------------------|-------|
| | 2015 | 2014 |
| Unvested stock award shares at January 1 | 6 | 8 |
| Weighted average grant date fair value | \$ 18 | \$ 17 |
| Stock award shares granted | 1 | 1 |
| Weighted average grant date fair value | \$ 26 | \$ 22 |
| Stock award shares vested | 2 | 2 |
| Weighted average grant date fair value | \$ 17 | \$ 17 |
| Stock award shares forfeited | | |

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| | | | | |
|---|----|----|----|----|
| Weighted average grant date fair value | \$ | 19 | \$ | 18 |
| Unvested stock award shares at March 31 | | 5 | | 7 |
| Weighted average grant date fair value | \$ | 19 | \$ | 18 |

At March 31, 2015 and 2014, there was \$68 million and \$94 million of total unrecognized compensation expense related to unvested stock awards, respectively; such awards had a weighted average remaining vesting period of three years in 2015 and four years in 2014.

The total market value (at the vesting date) of stock award shares which vested during the three months ended March 31, 2015 and 2014 was \$48 million and \$45 million, respectively.

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

Note J continued:

Stock Options. Stock options are granted to our key employees. The exercise price equals the market price of our common stock at the grant date. These options generally become exercisable (vest ratably) over five years beginning on the first anniversary from the date of grant and expire no later than 10 years after the grant date.

We granted 452,380 of stock option shares in the three months ended March 31, 2015 with a grant date exercise price approximating \$26 per share. In the first three months of 2015, 136,040 stock option shares were forfeited (including options that expired unexercised).

Our stock option activity was as follows, shares in millions:

| | Three Months Ended | |
|---|--------------------|---------------|
| | 2015 | 2014 |
| Option shares outstanding, January 1 | 18 | 24 |
| Weighted average exercise price | \$ 21 | \$ 22 |
| Option shares granted | | |
| Weighted average exercise price | \$ 26 | \$ 22 |
| Option shares exercised | 1 | 1 |
| Aggregate intrinsic value on date of exercise (A) | \$ 17 million | \$ 10 million |
| Weighted average exercise price | \$ 14 | \$ 16 |
| Option shares forfeited | | |
| Weighted average exercise price | \$ 22 | \$ 27 |
| Option shares outstanding, March 31 | 17 | 23 |
| Weighted average exercise price | \$ 22 | \$ 22 |
| Weighted average remaining option term (in years) | 3 | 4 |
| Option shares vested and expected to vest, March 31 | 17 | 23 |
| Weighted average exercise price | \$ 22 | \$ 22 |
| Aggregate intrinsic value (A) | \$ 108 million | \$ 93 million |
| Weighted average remaining option term (in years) | 3 | 4 |
| Option shares exercisable (vested), March 31 | 15 | 20 |
| Weighted average exercise price | \$ 22 | \$ 23 |
| Aggregate intrinsic value (A) | \$ 94 million | \$ 72 million |

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Weighted average remaining option term (in years)

3

3

(A) Aggregate intrinsic value is calculated using our stock price at each respective date, less the exercise price (grant date price) multiplied by the number of shares.

At March 31, 2015 and 2014, there were \$9 million and \$11 million, respectively, of unrecognized compensation expense (using the Black-Scholes option pricing model at the grant date) related to unvested stock options; such options had a weighted average remaining vesting period of three years at both March 31, 2015 and 2014.

Table of Contents**MASCO CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)**

Note J concluded:

The weighted average grant date fair value of option shares granted and the assumptions used to estimate those values using a Black-Scholes option pricing model were as follows:

| | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2015 | 2014 |
| Weighted average grant date fair value | \$ 9.67 | \$ 9.53 |
| Risk-free interest rate | 1.75% | 1.91% |
| Dividend yield | 1.32% | 1.34% |
| Volatility factor | 42.00% | 49.00% |
| Expected option life | 6 years | 6 years |

K. EMPLOYEE RETIREMENT PLANS

Net periodic pension cost for our defined-benefit pension plans was as follows, in millions:

| | Three Months ended March 31, | | | |
|--------------------------------|------------------------------|---------------|-----------|---------------|
| | 2015 | | 2014 | |
| | Qualified | Non-Qualified | Qualified | Non-Qualified |
| Service cost | \$ 1 | \$ | \$ 1 | \$ |
| Interest cost | 12 | 1 | 13 | 2 |
| Expected return on plan assets | (11) | | (12) | |
| Amortization of net loss | 4 | 1 | 3 | |
| Net periodic pension cost | \$ 6 | \$ 2 | \$ 5 | \$ 2 |

We participate in 21 regional multi-employer pension plans, principally related to building trades; none of the plans are considered significant to us.

Effective January 1, 2010, we froze all future benefit accruals under substantially all of our domestic qualified and non-qualified defined benefit pension plans. Future benefit accruals related to our foreign non-qualified plans were frozen several years ago.

L. RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The reclassifications from accumulated other comprehensive (loss) income to the condensed consolidated statement of operations were as follows, in millions:

| Accumulated Other Comprehensive (Loss) Income | Amount Reclassified Three Months Ended March 31, | | Statement of Operations Line Item |
|---|---|------|---|
| | 2015 | 2014 | |
| Amortization of defined benefit pension: | | | |
| Actuarial losses, Net | \$ 5 | \$ 3 | Selling, general & administrative expense |
| Tax (benefit) expense | (1) | | |
| Net of tax | \$ 4 | \$ 3 | |

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MASCO CORPORATION

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

M. SEGMENT INFORMATION

Information by segment and geographic area was as follows, in millions:

| | 2015 | | Three Months Ended March 31, 2014 | | 2015 | | 2014 | |
|---|---------------|-------|--------------------------------------|-------|-------------------------|------|------|------|
| | Net Sales (A) | | | | Operating Profit (Loss) | | | |
| Our operations by segment were: | | | | | | | | |
| Cabinets and Related Products | \$ | 249 | \$ | 237 | \$ | (4) | \$ | (12) |
| Plumbing Products | | 796 | | 800 | | 111 | | 119 |
| Installation and Other Services | | 359 | | 335 | | 7 | | (4) |
| Decorative Architectural Products | | 451 | | 441 | | 83 | | 76 |
| Other Specialty Products | | 163 | | 152 | | 6 | | 5 |
| Total | \$ | 2,018 | \$ | 1,965 | \$ | 203 | \$ | 184 |
| Our operations by geographic area were: | | | | | | | | |
| North America | \$ | 1,641 | \$ | 1,556 | \$ | 158 | \$ | 129 |
| International, principally Europe | | 377 | | 409 | | 45 | | 55 |
| Total | \$ | 2,018 | \$ | 1,965 | | 203 | | 184 |
| General corporate expense, net | | | | | | (32) | | (32) |
| Operating profit, as reported | | | | | | 171 | | 152 |
| Other income (expense), net | | | | | | (55) | | (59) |
| Income from continuing operations before income taxes | | | | | \$ | 116 | \$ | 93 |

(A) Inter-segment sales were not material.

N. SEVERANCE COSTS

We recorded charges related to severance of \$6 million and \$2 million for the three months ended March 31, 2015 and 2014, respectively. Such charges are principally reflected in the condensed consolidated statement of operations in selling, general and administrative expenses.

O. OTHER INCOME (EXPENSE), NET

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Other, net, which is included in other income (expense), net, was as follows, in millions:

| | Three Months Ended | |
|---|--------------------|--------|
| | March 31, | |
| | 2015 | 2014 |
| Income from cash and cash investments | \$ | \$ 1 |
| Income (loss) from financial investments (Note F) | | (1) |
| Foreign currency transaction losses | | (2) |
| Other items, net | | (1) |
| Total other, net | \$ | \$ (3) |

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MASCO CORPORATION

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

P. EARNINGS PER COMMON SHARE

Reconciliations of the numerators and denominators used in the computations of basic and diluted earnings per common share were as follows, in millions:

| | Three Months Ended | |
|--|--------------------|-------|
| | 2015 | 2014 |
| Numerator (basic and diluted): | | |
| Income from continuing operations | \$ 64 | \$ 76 |
| Less: Allocation to unvested restricted stock awards | 1 | 1 |
| Income from continuing operations available to common shareholders | \$ 63 | \$ 75 |
| Loss from discontinued operations | | (2) |
| Less: Allocation to unvested restricted stock awards | | |
| Loss from discontinued operations available to common shareholders | | (2) |
| Net income available to common shareholders | \$ 63 | \$ 73 |
| Denominator: | | |
| Basic common shares (based upon weighted average) | 344 | 351 |
| Add: Stock option dilution | 3 | 3 |
| Diluted common shares | 347 | 354 |

For the three months ended March 31, 2015 and 2014, we allocated dividends and undistributed earnings to the unvested restricted stock awards (participating securities).

Additionally, 8 million and 11 million common shares for the three months ended March 31, 2015 and 2014, respectively, related to stock options were excluded from the computation of diluted earnings per common share due to their antidilutive effect.

In the first three months of 2015, we repurchased and retired 4.1 million shares of our common stock (including 675 thousand shares to offset the dilutive impact of long-term stock awards granted in the first quarter), for approximately \$106 million, including \$3 million that was cash settled in April 2015. At March 31, 2015, we had 40.9 million shares of our common stock remaining under the September 2014 Board of Directors' repurchase authorization.

On the basis of amounts paid (declared), cash dividends per common share were \$.09 (\$.09) and \$.075 (\$.075) for the three months ended March 31, 2015 and 2014, respectively.

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MASCO CORPORATION

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

Q. OTHER COMMITMENTS AND CONTINGENCIES

We are subject to claims, charges, litigation and other proceedings in the ordinary course of our business, including those arising from or related to contractual matters, intellectual property, personal injury, environmental matters, product liability, product recalls, construction defect, insurance coverage, personnel and employment disputes, anti-trust and other matters, including class actions. We believe we have adequate defenses in these matters and that the likelihood that the outcome of these matters would have a material adverse effect on us is remote. However, there is no assurance that we will prevail in these matters, and we could in the future incur judgments, enter into settlements of claims or revise our expectations regarding the outcome of these matters, which could materially impact our results of operations.

R. INCOME TAXES

Our effective tax rate was 37 and 5 percent for the three months ended March 31, 2015 and 2014, respectively. The 2015 tax rate includes certain anticipated non-deductible transaction costs related to the previously announced proposed spin-off of our Services Business. The 2014 tax rate includes the decrease in the valuation allowance resulting from the partial utilization of our U.S. Federal net operating loss carryforward. The effective tax rate was also impacted by a \$3 million and \$15 million state income tax benefit on uncertain tax positions primarily due to the expiration of applicable statutes of limitation for the three months ended March 31, 2015 and 2014, respectively.

It is reasonably possible that the continued improvements in certain of our U.S. businesses could result in the objective positive evidence necessary to warrant the reversal of all or a portion of the valuation allowance on certain state and local deferred tax assets, up to approximately \$27 million, by the end of 2015.

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Item 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

FIRST QUARTER 2015 VERSUS FIRST QUARTER 2014**SALES AND OPERATIONS**

The following table sets forth our net sales and operating profit margins by business segment and geographic area, dollars in millions:

| | Three Months Ended March 31, | | Percent Change 2015 vs. 2014 |
|-----------------------------------|---------------------------------|----------|------------------------------------|
| | 2015 | 2014 | |
| Net Sales: | | | |
| Cabinets and Related Products | \$ 249 | \$ 237 | 5% |
| Plumbing Products | 796 | 800 | (1)% |
| Installation and Other Services | 359 | 335 | 7% |
| Decorative Architectural Products | 451 | 441 | 2% |
| Other Specialty Products | 163 | 152 | 7% |
| Total | \$ 2,018 | \$ 1,965 | 3% |
| North America | \$ 1,641 | \$ 1,556 | 5% |
| International, principally Europe | 377 | 409 | (8)% |
| Total | \$ 2,018 | \$ 1,965 | 3% |

| | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2015 | 2014 |
| Operating Profit (Loss) Margins: (A) | | |
| Cabinets and Related Products | (1.6)% | (5.1)% |
| Plumbing Products | 13.9% | 14.9% |
| Installation and Other Services | 1.9% | (1.2)% |
| Decorative Architectural Products | 18.4% | 17.2% |
| Other Specialty Products | 3.7% | 3.3% |
| North America | 9.6% | 8.3% |
| International, principally Europe | 11.9% | 13.4% |
| Total | 10.1% | 9.4% |
| Total operating profit margin, as reported | 8.5% | 7.7% |

(A) Before general corporate expense, net; see Note M to the condensed consolidated financial statements.

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We report our financial results in accordance with generally accepted accounting principles (GAAP) in the United States. However, we believe that certain non-GAAP performance measures and ratios used in managing the business may provide users of this financial information with additional meaningful comparisons between current results and results in prior periods. Non-GAAP performance measures and ratios should be viewed in addition to, and not as an alternative for, our reported results.

Table of Contents**NET SALES**

Net sales increased three percent for the three-month period ended March 31, 2015, from the comparable period of 2014. Excluding acquisitions and the unfavorable effect of currency translation, net sales increased seven percent in the first quarter of 2015 compared to the first quarter of 2014. The following table reconciles reported net sales to net sales, excluding acquisitions and the effect of currency translation, in millions:

| | Three Months Ended | |
|--|---------------------------|------------------|
| | 2015 | March 31, |
| | | 2014 |
| Net sales, as reported | \$ 2,018 | \$ 1,965 |
| Acquisitions | (2) | |
| Net sales, excluding acquisitions | 2,016 | 1,965 |
| Currency translation | 77 | |
| Net sales, excluding acquisitions and the effect of currency translation | \$ 2,093 | \$ 1,965 |

North American net sales were positively impacted by increased sales volume of plumbing products, installation and other services, paints and stains, builders hardware, and windows, which, in the aggregate, increased North American sales by four percent for the three-month period ended March 31, 2015, from the comparable period of 2014. A favorable product mix in cabinets and windows increased sales by one percent. Net sales were also positively affected by net selling price increases, primarily related to installation and other services, cabinets, and windows, which increased sales by one percent for the three-month period ended March 31, 2015, from the comparable period of 2014.

International net sales decreased by 17 percent due to a stronger U.S. dollar in the three-month period ended March 31, 2015 compared to the same period of 2014. In local currencies, net sales from international operations increased 10 percent for the three-month period ended March 31, 2015 primarily due to increased sales volume of international plumbing products and cabinets coupled with selling price increases for International plumbing products.

Net sales of Cabinets and Related Products increased for the three-month period ended March 31, 2015, compared to the same period of 2014, due to a favorable product mix and selling price of North American cabinets and an increased sales volume of international cabinets, which was partially offset by lower sales volume of North American cabinets.

Net sales of Plumbing Products decreased due to a stronger U.S. dollar which reduced sales by nine percent in the three month period ending March 31, 2015 from the comparable period in 2014. In local currencies, sales increased by eight percent primarily due to increased sales volume of both North American and international operations, which, on a combined basis increased sales by five percent. Net sales were also positively affected by selling price increases related to international operations.

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Net sales of Installation and Other Services increased for the three-month period ended March 31, 2015, compared to the same period of 2014, primarily due to increased sales volume related to a higher level of activity in new home construction, as well as increased sales volume of commercial sales, which on a combined basis, increased sales by four percent. Net sales in this segment were also positively affected by increased selling prices.

Net sales of Decorative Architectural Products increased for the three-month period ended March 31, 2015, compared to the same period of 2014, due to increased sales volume of paints and stains related to the expansion of the Pro business and new product introductions, and increased sales volume of builders' hardware, partially offset by lower selling prices of paints and stains.

Net sales of Other Specialty Products increased for the three-month period ended March 31, 2015, compared to the same period of 2014, due primarily to a favorable product mix, increased volume and selling prices of North American windows in the western U.S., which on a combined basis, increased sales eight percent. A stronger U.S. dollar decreased sales by three percent in the three-month period ended March 31, 2015 compared to 2014.

OPERATING MARGINS

Our gross profit margins were 28.1 percent for the three-month period ended March 31, 2015 compared with 27.8 percent for the comparable period of 2014.

Gross profit margins for the three-month period ended March 31, 2015 were positively affected by increased sales volume as well as a more favorable relationship between selling prices and commodity costs and the benefits associated with other cost savings initiatives.

Selling, general and administrative expenses, as a percentage of sales, were 19.7 percent for the three-month period ended March 31, 2015 compared to 20.1 percent for the comparable period of 2014.

Over the last several years we have taken several actions focused on the strategic rationalization of our businesses, including business consolidations, plant closures, headcount reductions and other initiatives. Operating profit for the three-month period ended March 31, 2015 includes \$10 million of costs and charges related to our business rationalizations and other initiatives, which includes \$4 million of costs and charges related to the previously announced proposed spin-off of our Services Business. For the three-month period ended March 31, 2014, we incurred costs and charges of \$5 million related to business rationalization initiatives.

Operating margins in the Cabinets and Related Products segment for the three-month period ended March 31, 2015 were positively affected by a favorable product mix in North America, a more favorable relationship between selling prices and commodity costs and the benefits associated with business rationalization activities and other cost savings initiatives.

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Operating margins in the Plumbing Products segment for the three-month period ended March 31, 2015 were negatively impacted by a stronger U.S. dollar which decreased operating profit by eight percent, an increase in certain variable expenses such as trade show and marketing expenses, and an unfavorable product mix. Such decreases were partially offset by increased sales volume and a favorable relationship between selling price and commodity costs.

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Operating margins in the Installation and Other Services segment for the three-month period ended March 31, 2015 were positively impacted by increased sales volume, a more favorable relationship between selling prices and commodity costs, and the benefits associated with business rationalization activities and other cost savings initiatives.

Operating margins in the Decorative Architectural Products segment for the three-month period ended March 31, 2015 were positively affected by increased sales volume of paints and stains and builders hardware.

Operating margins in the Other Specialty Products segment for the three-month period ended March 31, 2015 reflect a more favorable relationship between selling prices and commodity costs of windows in the U.S. and U.K., sales volume and favorable mix in the western U.S., partially offset by an increase in certain expenses such as advertising and system implementation costs.

OTHER INCOME (EXPENSE), NET

Interest expense for the three-month periods ended March 31, 2015 and 2014 was \$56 million.

Other, net, for the three-month period ended March 31, 2015 included gains of \$2 million related to distributions from private equity funds.

Other, net, for the three-month period ended March 31, 2014 included gains of \$1 million related to distributions from private equity funds and \$2 million of loss from equity investments.

Other, net, included \$1 million and \$2 million of currency transaction losses for the three-month period ended March 31, 2015 and 2014, respectively.

INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS Attributable to Masco Corporation

Income for the three-month period ended March 31, 2015 was \$64 million compared with \$76 million for the comparable period of 2014. Diluted earnings per common share for the three-month period ended March 31, 2015 was \$.18 per common share compared with \$.21 per common share for the comparable period of 2014.

Our effective tax rate was 37 percent for the three months ended March 31, 2015. This rate was higher than our normalized tax rate of 36 percent due primarily to certain anticipated non-deductible transaction costs related to the previously announced proposed spin-off of our Services Business.

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Our effective tax rate was five percent for the three months ended March 31, 2014 primarily due to the decrease in the valuation allowance resulting from the partial utilization of our U.S. Federal net operating loss carryforward and from a \$15 million state income tax benefit on uncertain tax positions primarily due to the expiration of applicable statutes of limitation.

It is reasonably possible that the continued improvements in certain of our U.S. businesses could result in the objective positive evidence necessary to warrant the reversal of all or a portion of the valuation allowance on certain state and local deferred tax assets, up to approximately \$27 million, by the end of 2015.

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OTHER FINANCIAL INFORMATION

Our current ratio was 1.9 to 1 and 1.7 to 1 at March 31, 2015 and December 31, 2014, respectively. The increase in the current ratio was primarily due to the seasonal increase in accounts receivable and inventories.

For the three months ended March 31, 2015, cash of \$152 million was used for operating activities. First quarter 2015 and 2014 cash for operations was affected by an expected and annually recurring seasonal first quarter increase in accounts receivable and inventories compared with fourth quarter 2014 and 2013, respectively.

For the three months ended March 31, 2015, net cash from financing activities was \$362 million, primarily due to the issuance of notes of \$497 million, net of issuance costs. Other financing activities include \$32 million for the payment of cash dividends and \$103 million for the repurchase and retirement of Company common stock in open-market transactions, including 675 thousand shares repurchased to offset the dilutive impact of long-term stock awards granted in 2015.

For the three months ended March 31, 2015, net cash from investing activities was \$11 million, including \$78 million from net proceeds from the sale of short-term bank cash deposits, partially offset by \$32 million for capital expenditures, \$26 million for the acquisition of an aquatic fitness business within our Plumbing Products segment, and \$14 million for in-store displays.

Our cash, cash investments and short-term bank deposits were \$1.8 billion and \$1.7 billion at March 31, 2015 and December 31, 2014, respectively. Our cash and cash investments consist of overnight interest bearing money market demand and time deposit accounts, money market mutual funds containing government securities and treasury obligations. Our short-term bank deposits consist of time deposits with maturities of 12 months or less.

Of the \$1.8 billion and the \$1.7 billion of cash, cash investments and short-term bank deposits held at March 31, 2015 and December 31, 2014, \$564 million and \$672 million, respectively, is held in foreign subsidiaries. If these funds were needed for our operations in the U.S., their repatriation into the U.S. may result in additional U.S. income taxes or foreign withholding taxes. The amount of such taxes is dependent on the income tax laws and circumstances at the time of distribution.

On March 17, 2015, we issued \$500 million of 4.45% Notes (Notes) due April 1, 2025. The Notes are senior indebtedness and are redeemable at our option.

On March 28, 2013, we entered into a credit agreement (the Credit Agreement) with a bank group, with an aggregate commitment of \$1.25 billion and a maturity date of March 28, 2018. See Note I to the condensed consolidated financial statements.

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Based on the limitations of the debt to total capitalization ratio covenant in the Credit Agreement, at March 31, 2015, we had additional borrowing capacity, subject to availability, of up to \$1.1 billion. Additionally, at March 31, 2015, we could absorb a reduction to shareholders equity of approximately \$579 million and remain in compliance with the debt to total capitalization covenant.

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We were in compliance with all covenants and had no borrowings under our Credit Agreement at March 31, 2015.

We believe that our present cash balance, cash flows from operations and, to the extent necessary, bank borrowings and future financial market activities, are sufficient to fund our working capital and other investment needs.

OUTLOOK FOR THE COMPANY

We are making progress on our 2015 strategic priorities, which include leveraging opportunities across our businesses, driving the full potential of our core businesses and actively managing our portfolio. We believe that new home construction and repair and remodel activity will show continued growth in 2015, both in North America and internationally.

We believe and are confident that the long-term fundamentals for new home construction and home improvement activity continue to be positive. We believe that our strong financial position, together with our current strategy of investing in leadership brands, including KRAFTMAID® and MERILLAT® cabinets, DELTA® and HANSGROHE® faucets, BEHR® paint and MILGARD® windows, our continued focus on innovation and our commitment to lean principles, will allow us to drive long-term growth and create value for our shareholders.

On September 30, 2014, we announced a plan to spin off 100 percent of our Installation and Other Services businesses into an independent, publicly-traded company (to be named TopBuild Corp.) through a tax-free distribution of the stock of TopBuild Corp. to our shareholders. The transaction is expected to be completed in mid-2015. For the three months ended March 31, 2015, we have incurred \$4 million of costs and charges related to this transaction.

FORWARD-LOOKING STATEMENTS

Statements contained in this report that reflect our views about our future performance constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as believe, anticipate, appear, may, will, should, intend, plan, estimate, expect, assume, seek, forecast, and similar references to future periods. These views involve risks and uncertainties that are difficult to predict and, accordingly, our actual results may differ materially from the results discussed in our forward-looking statements. We caution you against relying on any of these forward-looking statements. Our future performance may be affected by our reliance on new home construction and home improvement, our reliance on key customers, the cost and availability of raw materials, uncertainty in the international economy, shifts in consumer preferences and purchasing practices, our ability to improve our underperforming businesses, our ability to maintain our competitive position in our industries, risks associated with the proposed spin-off of our Installation and Other Services businesses, our ability to realize the expected benefits of the spin-off, the timing and the terms of our share repurchase program, and our ability to reduce corporate expense and simplify our organizational structure. These and other factors are discussed in detail in Item 1A, Risk Factors in our most recent Annual Report on Form 10-K, as well as in other filings we make with the Securities and Exchange Commission. Our forward-looking statements in this report speak only as of the date of this report. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Unless required by law, we undertake no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise.

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Item 4. CONTROLS AND PROCEDURES

a. Evaluation of Disclosure Controls and Procedures.

The Company's principal executive officer and principal financial officer have concluded, based on an evaluation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15 that, as of March 31, 2015, the Company's disclosure controls and procedures were effective.

b. Changes in Internal Control over Financial Reporting.

In connection with the evaluation of the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2015, which is required under the Securities Exchange Act of 1934 by paragraph (d) of Exchange Rules 13a-15 or 15d-15 (as defined in paragraph (f) of Rule 13a-15), management determined that there was no change that materially affected or is reasonably likely to materially affect internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

Information regarding legal proceedings involving us is set forth in Note Q to our condensed consolidated financial statements included in Part I, Item 1 of this Report and is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors of the Company set forth in Item 1A, Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding the repurchase of Company common stock for the three months ended March 31, 2015:

| Period | Total Number of Shares Purchased | Average Price Paid Per Common Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a) | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|-----------------------|----------------------------------|-------------------------------------|--|--|
| 1/1/15 1/31/15 | 1,475,000 | \$ 24.77 | 1,475,000 | 43,525,000 |
| 2/1/15 2/28/15 | 1,275,000 | \$ 26.34 | 1,275,000 | 42,250,000 |
| 3/1/15 3/31/15 | 1,350,000 | \$ 26.36 | 1,350,000 | 40,900,000 |
| Total for the quarter | 4,100,000 | \$ 25.78 | 4,100,000 | 40,900,000 |

(a) In September 2014, our Board of Directors authorized the purchase of up to 50 million shares of our common stock in open-market transactions or otherwise.

Item 6. Exhibits

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- 10a Form of Supplemental Executive Retirement and Disability Plan, including amendments thereto, for Gerald Volas (including amendment freezing benefit accruals)
- 12 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- 31a Certification by Chief Executive Officer Required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
- 31b Certification by Chief Financial Officer Required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
- 32 Certification Required by Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code
- 101 Interactive Data File

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MASCO CORPORATION

| | |
|--------|--|
| By: | /s/ John G. Sznawajs |
| Name: | John G. Sznawajs |
| Title: | Vice President, Treasurer and Chief Financial Officer |

April 28, 2015

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EXHIBIT INDEX

Exhibit

| | |
|-------------|---|
| Exhibit 10a | Form of Supplemental Executive Retirement and Disability Plan, including amendments thereto, for Gerald Volas (including amendment freezing benefit accruals) |
| Exhibit 12 | Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends |
| Exhibit 31a | Certification by Chief Executive Officer Required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 |
| Exhibit 31b | Certification by Chief Financial Officer Required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 |
| Exhibit 32 | Certification Required by Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code |
| Exhibit 101 | Interactive Data File |