

MASCO CORP /DE/
Form 10-Q
April 30, 2014
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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, 2014

Commission file number: 1-5794

Masco Corporation

(Exact name of Registrant as Specified in its Charter)

Delaware
(State or Other
Jurisdiction
of Incorporation)

38-1794485
(IRS Employer
Identification No.)

21001 Van Born Road, Taylor, Michigan
(Address of Principal Executive Offices)

48180
(Zip Code)

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(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 April 21, 2014 |
|--|--------------------------------------|
| Common stock, par value \$1.00 per share | 356,545,600 |

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CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

March 31, 2014 and December 31, 2013

(In Millions, Except Share Data)

| | March 31, 2014 | December 31, 2013 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash investments | \$ 906 | \$ 1,223 |
| Short-term bank deposits | 305 | 321 |
| Receivables | 1,215 | 1,004 |
| Prepaid expenses and other | 154 | 155 |
| Inventories: | | |
| Finished goods | 455 | 398 |
| Raw material | 273 | 268 |
| Work in process | 110 | 99 |
| | 838 | 765 |
| Total current assets | 3,418 | 3,468 |
| Property and equipment, net | 1,232 | 1,252 |
| Goodwill | 1,903 | 1,903 |
| Other intangible assets, net | 150 | 149 |
| Other assets | 177 | 185 |
| Total assets | \$ 6,880 | \$ 6,957 |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes payable | \$ 6 | \$ 6 |
| Accounts payable | 954 | 902 |
| Accrued liabilities | 760 | 874 |
| Total current liabilities | 1,720 | 1,782 |
| Long-term debt | 3,421 | 3,421 |
| Deferred income taxes and other | 938 | 967 |
| Total liabilities | 6,079 | 6,170 |
| 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: 2014 349,400,000; 2013 349,500,000 | 349 | 349 |
| Preferred shares authorized: 1,000,000; issued and outstanding: 2014 None; 2013 None | | |
| Paid-in capital | | 16 |
| Retained earnings | 98 | 79 |
| Accumulated other comprehensive income | 115 | 115 |
| Total Masco Corporation's shareholders' equity | 562 | 559 |
| Noncontrolling interest | 239 | 228 |
| Total equity | 801 | 787 |
| Total liabilities and equity | \$ 6,880 | \$ 6,957 |

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, 2014 and 2013

(In Millions Except Per Common Share Data)

| | Three Months Ended March 31, | |
|---|------------------------------|----------|
| | 2014 | 2013 |
| Net sales | \$ 1,965 | \$ 1,876 |
| Cost of sales | 1,418 | 1,368 |
| Gross profit | 547 | 508 |
| Selling, general and administrative expenses | 395 | 376 |
| Operating profit | 152 | 132 |
| Other income (expense), net: | | |
| Interest expense | (56) | (60) |
| Other, net | (3) | 13 |
| | (59) | (47) |
| Income from continuing operations before income taxes | 93 | 85 |
| Income taxes | 5 | 14 |
| Income from continuing operations | 88 | 71 |
| Loss from discontinued operations | (2) | (9) |
| Net income | 86 | 62 |
| Less: Net income attributable to noncontrolling interest | 12 | 9 |
| Net income attributable to Masco Corporation | \$ 74 | \$ 53 |
| Income per common share attributable to Masco Corporation: | | |
| Basic: | | |
| Income from continuing operations | \$.21 | \$.17 |
| Loss from discontinued operations | (.01) | (.03) |
| Net income | \$.21 | \$.15 |
| Diluted: | | |
| Income from continuing operations | \$.21 | \$.17 |
| Loss from discontinued operations | (.01) | (.03) |
| Net income | \$.21 | \$.15 |
| Amounts attributable to Masco Corporation: | | |
| Income from continuing operations | \$ 76 | \$ 62 |
| Loss from discontinued operations | (2) | (9) |
| Net income | \$ 74 | \$ 53 |

See notes to condensed consolidated financial statements.

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MASCO CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the Three Months Ended March 31, 2014 and 2013

(In Millions)

| | | | |
|--|----|-----|---------|
| | | | |
| Net income | \$ | 86 | \$ 62 |
| | | | |
| Net income attributable to Masco Corporation | \$ | 74 | \$ 53 |
| | | | |
| Other comprehensive income (loss), net of tax: | | | |
| | | | |
| Unrecognized pension prior service cost and net gain | | 3 | 5 |
| | | | |
| Other comprehensive loss | | (1) | (31) |
| | | | |
| Less: Other comprehensive loss attributable to noncontrolling interest | | (1) | (8) |
| | | | |
| Other comprehensive income (loss) attributable to Masco Corporation | \$ | | \$ (23) |
| | | | |
| Total comprehensive income | \$ | 85 | \$ 31 |
| | | | |

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, 2014 and 2013

(In Millions)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2014 | 2013 |
| CASH FLOWS FROM (FOR) OPERATING ACTIVITIES: | | |
| Cash provided by operations | \$ 121 | \$ 130 |
| Increase in receivables | (227) | (263) |
| Increase in inventories | (75) | (43) |
| Decrease in accounts payable and accrued liabilities, net | (63) | (34) |
| Net cash for operating activities | (244) | (210) |
| CASH FLOWS FROM (FOR) FINANCING ACTIVITIES: | | |
| Purchase of Company common stock | (39) | (35) |
| Cash dividends paid | (27) | (26) |
| New Credit Agreement costs | (4) | (4) |
| Net cash for financing activities | (66) | (65) |
| CASH FLOWS FROM (FOR) INVESTING ACTIVITIES: | | |
| Capital expenditures | (26) | (31) |
| Acquisition of companies, net of cash acquired | (2) | (5) |
| Proceeds from disposition of: | | |
| Other financial investments | 2 | 5 |
| Property and equipment | 5 | 5 |
| Short-term bank deposits | 84 | 172 |
| Purchases of: | | |
| Short-term bank deposits | (69) | (72) |
| Other, net | (4) | (4) |
| Net cash (for) from investing activities | (6) | 70 |
| Effect of exchange rate changes on cash and cash investments | (1) | (7) |
| CASH AND CASH INVESTMENTS: | | |
| Decrease for the period | (317) | (212) |
| At January 1 | 1,223 | 1,040 |
| At March 31 | \$ 906 | \$ 828 |

See notes to condensed consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Unaudited)

For The Three Months Ended March 31, 2014 and 2013

(In Millions)

| | Total | Common Shares (\$1 par value) | Paid-In Capital | Retained (Deficit) Earnings | Accumulated Other Comprehensive Income | Noncontrolling Interest |
|---------------------------------|--------|-------------------------------------|--------------------|-----------------------------------|---|----------------------------|
| Balance, January 1, 2013 | \$ 542 | \$ 349 | \$ 16 | \$ (94) | \$ 59 | \$ 212 |
| Total comprehensive income | 31 | | | 53 | (23) | 1 |
| Shares issued | (7) | 2 | (9) | | | |
| Shares retired: | | | | | | |
| Repurchased | (35) | (2) | (11) | (22) | | |
| Surrendered (non-cash) | (10) | | (10) | | | |
| Cash dividends declared | (26) | | | (26) | | |
| Stock-based compensation | 14 | | 14 | | | |
| Balance, March 31, 2013 | \$ 509 | \$ 349 | \$ 16 | \$ (89) | \$ 36 | \$ 213 |
| 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 | \$ 12 | \$ 98 | \$ 115 | \$ 239 |

See notes to consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 March 31, 2014 and the results of operations for the three months ended March 31, 2014 and 2013 and cash flows for the three months ended March 31, 2014 and 2013. The condensed consolidated balance sheet at December 31, 2013 was derived from audited financial statements.

Certain prior-year amounts have been reclassified to conform to the 2014 presentation in the condensed consolidated financial statements.

Revision of Previously Issued Financial Statements. During the first quarter ended March 31, 2014, the Company identified an error in the accounting for certain of its investments in private equity limited partnership funds. The investments were inappropriately accounted for under the cost basis versus the equity method. The impact of the error was to under report the investment value (included in other assets on the consolidated balance sheets) and to over (under) state equity investment earnings (loss) (included in other income (expense), net in the consolidated statements of operations). We have revised our first quarter 2013 consolidated statement of operations and prior year consolidated balance sheet in these financial statements to reflect the investment accounted for as an equity investment. Retained earnings and other comprehensive income were adjusted for the changes in net income. Other historic periods will be revised, as detailed below, in our future filings. This error is not considered material to any prior period financial statement.

This revision has no effect on our consolidated statement of cash flows.

The following table presents the impact of the revisions on the Company's previously issued full-year consolidated statement of operations (in millions):

| | 2013 | Year ended December 31, | | 2011 |
|--|----------|-------------------------|----------|------|
| | | 2012 | | |
| Other income (expense), net | | | | |
| As reported | \$ (239) | \$ (229) | \$ (177) | |
| Correction | 16 | | 9 | |
| As revised | \$ (223) | \$ (229) | \$ (168) | |
| Income (loss) from continuing operations, before income taxes | | | | |
| As reported | \$ 434 | \$ 73 | \$ (392) | |
| Correction | 16 | | 9 | |
| As revised | \$ 450 | \$ 73 | \$ (383) | |
| Income (loss) from continuing operations | | | | |
| As reported | \$ 323 | \$ (18) | \$ (352) | |
| Correction | 16 | | 9 | |
| As revised | \$ 339 | \$ (18) | \$ (343) | |
| Net income (loss) | | | | |