MASCO CORP /DE/
Form 10-Q
July 28, 2015

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 June 30, 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**

(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 June 30, 2015**
Common stock, par value $1.00 per share	343,950,330

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CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

June 30, 2015 and December 31, 2014

(In Millions, Except Share Data)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash investments	$ 1,297	$ 1,379
Short-term bank deposits	210	306
Receivables	1,105	820
Deferred income taxes	127	206
Prepaid expenses and other	72	68
Assets held for sale		373
Inventories:		
Finished goods	416	361
Raw material	264	251
Work in process	99	100
	779	712
Total current assets	3,590	3,864
Property and equipment, net	1,027	1,046
Goodwill	845	840
Other intangible assets, net	164	142
Other assets	243	200
Assets held for sale		1,141
Total assets	$ 5,869	$ 7,233
LIABILITIES		
Current liabilities:		
Notes payable	$ 6	$ 505
Accounts payable	889	721
Accrued liabilities	695	685
Liabilities held for sale		300
Total current liabilities	1,590	2,211
Long-term debt	3,419	2,919
Other liabilities	729	768
Liabilities held for sale		207
Total liabilities	5,738	6,105
Commitments and contingencies		
EQUITY		
Masco Corporation s shareholders equity:		
	339	345

Common shares, par value $1 per share; Authorized shares: 1,400,000,000; issued and outstanding: 2015 339,000,000; 2014 345,000,000				
Preferred shares authorized: 1,000,000; issued and outstanding: 2015 None; 2014 None				
Paid-in capital				
Retained (deficit) earnings		(239)		690
Accumulated other comprehensive loss		(147)		(111)
Total Masco Corporation s shareholders (deficit) equity		(47)		924
Noncontrolling interest		178		204
Total equity		131		1,128
Total liabilities and equity	$	5,869	$	7,233

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the Three and Six Months Ended June 30, 2015 and 2014

(In Millions Except Per Common Share Data)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net sales	$ 1,929	$ 1,876	$ 3,588	$ 3,506
Cost of sales	1,292	1,301	2,456	2,449
Gross profit	637	575	1,132	1,057
Selling, general and administrative expenses	358	354	688	683
Operating profit	279	221	444	374
Other income (expense), net:				
Interest expense	(61)	(56)	(117)	(112)
Other, net	3	6	4	3
	(58)	(50)	(113)	(109)
Income from continuing operations before income taxes	221	171	331	265
Income taxes	102	34	142	38
Income from continuing operations	119	137	189	227
(Loss) gain from discontinued operations, net	(4)	15	(1)	11
Net income	115	152	188	238
Less: Net income attributable to noncontrolling interest	10	13	19	25
Net income attributable to Masco Corporation	$ 105	$ 139	$ 169	$ 213
Income per common share attributable to Masco Corporation:				
Basic:				
Income from continuing operations	$ .32	$ .35	$ .49	$ .57
(Loss) gain from discontinued operations, net	(.01)	.04		.03
Net income	$ .30	$ .39	$ .49	$ .60
Diluted:				
Income from continuing operations	$ .31	$ .35	$ .48	$ .56
(Loss) gain from discontinued operations, net	(.01)	.04		.03
Net income	$ .30	$ .39	$ .48	$ .59
Amounts attributable to Masco Corporation:				
Income from continuing operations	$ 109	$ 124	$ 170	$ 202
(Loss) gain from discontinued operations, net	(4)	15	(1)	11

Net income	$ 105	$ 139	$ 169	$ 213

See notes to condensed consolidated financial statements.

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

For the Three and Six Months Ended June 30, 2015 and 2014

(In Millions)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income	$ 115	$ 152	$ 188	$ 238
Less: Net income attributable to noncontrolling interest	10	13	19	25
Net income attributable to Masco Corporation	$ 105	$ 139	$ 169	$ 213
Other comprehensive income (loss), net of tax (see Note L):				
Cumulative translation adjustment	43	(2)	(53)	(6)
Interest rate swaps	1	1	1	1
Amortization of pension prior service cost and net loss	3	3	7	6
Other comprehensive income (loss)	47	2	(45)	1
Less: Other comprehensive income (loss) attributable to noncontrolling interest	14	(2)	(9)	(3)
Other comprehensive income (loss) attributable to Masco Corporation	$ 33	$ 4	$ (36)	$ 4
Total comprehensive income (loss)	$ 162	$ 154	$ 143	$ 239
Less: Total comprehensive income (loss) attributable to the noncontrolling interest	24	11	10	22
Total comprehensive income (loss) attributable to Masco Corporation	$ 138	$ 143	$ 133	$ 217

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

For the Six Months Ended June 30, 2015 and 2014

(In Millions)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:		
Cash provided by operations	$ 355	$ 345
Increase in receivables	(332)	(318)
Increase in inventories	(63)	(129)
Increase in accounts payable and accrued liabilities, net	179	163
Net cash from operating activities	139	61
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:		
Retirement of notes	(500)	
Purchase of Company common stock	(207)	(39)
Cash dividends paid	(62)	(54)
Dividend payment to noncontrolling interest	(36)	(34)
Cash distributed to TopBuild Corp.	(63)	
Issuance of TopBuild Corp. debt	200	
Issuance of notes, net of issuance costs	497	
Increase in debt, net		1
Issuance of Company common stock		1
Tax benefit from stock-based compensation	15	
Credit Agreement and other financing costs	(3)	
Net cash for financing activities	(159)	(125)
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:		
Capital expenditures	(70)	(54)
Acquisition of companies, net of cash acquired	(42)	(2)
Proceeds from disposition of:		
Short-term bank deposits	190	222
Other financial investments	6	13
Property and equipment	4	8
Purchases of:		
Short-term bank deposits	(119)	(131)
Other, net	(29)	(16)
Net cash (for) from investing activities	(60)	40
Effect of exchange rate changes on cash and cash investments	(6)	(4)

CASH AND CASH INVESTMENTS:				
Decrease for the period		(86)		(28)
At January 1		1,383		1,223
At June 30	$	1,297	$	1,195

See notes to condensed consolidated financial statements.

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MASCO CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Unaudited)

For The Six Months Ended June 30, 2015 and 2014

(In Millions, Except Per Share Data)

	Total	Common Shares ($1 par value)	Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest
Balance, January 1, 2014	**$ 787**	**$ 349**	**$ 16**	**$ 79**	**$ 115**	**$ 228**
Total comprehensive income	239			213	4	22
Shares issued	(4)	2	(6)			
Shares retired:						
Repurchased	(39)	(2)	(9)	(28)		
Surrendered (non-cash)	(14)		(14)			
Cash dividends declared	(59)			(59)		
Dividend payment to noncontrolling interest	(34)					(34)
Stock-based compensation	26		26			
Balance, June 30, 2014	$ 902	$ 349	$ 13	$ 205	$ 119	$ 216
Balance, January 1, 2015	**$ 1,128**	**$ 345**	**$**	**$ 690**	**$ (111)**	**$ 204**
Total comprehensive income (loss)	143			169	(36)	10
Shares issued	(8)	3	(11)			
Shares retired:						
Repurchased	(207)	(8)	(6)	(193)		
Surrendered (non-cash)	(16)	(1)		(15)		
Cash dividends declared	(62)			(62)		
Dividend payment to noncontrolling interest	(36)					(36)
Separation of TopBuild Corp.	(828)			(828)		
Stock-based compensation	17		17			
Balance, June 30, 2015	$ 131	$ 339	$	$ (239)	$ (147)	$ 178

See notes to condensed consolidated financial statements.

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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 June 30, 2015, our results of operations and comprehensive income (loss) for the three months and six months ended June 30, 2015 and 2014 and cash flows and changes in shareholders equity for the six months ended June 30, 2015 and 2014. The condensed consolidated balance sheet at December 31, 2014 was derived from audited financial statements.

Reclassifications: Certain prior year amounts have been reclassified to conform to the 2015 presentation in the condensed consolidated financial statements. In our condensed consolidated statements of cash flows, the cash flows from discontinued operations are not separately classified.

Recently Issued Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard for revenue recognition, Accounting Standards Codification 606 (ASC 606). The purpose of ASC 606 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability across industries. ASC 606 is effective for us for annual periods beginning January 1, 2018. We are currently evaluating the impact the adoption of this new standard will have on our results of operations.

In April 2014, the 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 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

The presentation of discontinued operations includes a component or group of components that we have or intend to dispose of, and represent a strategic shift that has (or will have) a major effect on our operations and financial results. For spin off transactions, discontinued operations treatment is appropriate following the completion of the spin off.

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 named TopBuild Corp. (TopBuild) through a tax-free distribution of the stock of TopBuild to our stockholders. We initiated the spin off as TopBuild was no longer considered core to our long-term growth strategy in branded building products. On June 30, 2015, immediately prior to the effective time of the spin off, TopBuild paid a cash distribution to us of $200 million using the proceeds of its new debt financing arrangement. This transaction was reported as a financing activity in the condensed consolidated statements of cash flows.

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

Note B continued:

We have accounted for the spin off of TopBuild as a discontinued operation. (Losses) gains from this discontinued operation were included in (loss) gain from discontinued operations, net, in the condensed consolidated statements of operations.

The major classes of line items constituting pre-tax (loss) profit of discontinued operations, in millions:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net sales	$ 404	$ 384	$ 762	$ 719
Cost of sales	318	298	603	568
Gross profit	86	86	159	151
Selling, general and administrative expenses	80	67	148	133
Income from discontinued operations	$ 6	$ 19	$ 11	$ 18
Loss on disposal of discontinued operations, net (1)		(1)		(3)
Income before income tax	6	18	11	15
Income tax expense (2)	(10)	(3)	(12)	(4)
(Loss) gain from discontinued operations, net	$ (4)	$ 15	$ (1)	$ 11

(1) Included in loss on disposal of discontinued operations, net in 2014 are additional costs and charges related to the 2013 sale of Tvilum.

(2) The unusual relationship between income tax expense and income before income tax for the three months and six months ended June 30, 2015 resulted primarily from certain non-deductible transaction costs related to the spin off of TopBuild.

The financial results reflected above may not represent TopBuild s stand-alone operating results, as the results reported within (loss) gain from discontinued operations, net include certain costs that are directly attributable to TopBuild and are factually supportable (such as transaction costs), and exclude corporate overhead costs that were previously allocated to TopBuild for each period.

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

Note B concluded:

The carrying amount of major classes of assets and liabilities included as part of the TopBuild discontinued operations, in millions:

		December 31, 2014
Cash	$	4
Receivables		220
Inventories		107
Deferred income taxes		38
Prepaid expenses and other		4
Property and equipment, net		93
Goodwill		1,044
Other intangible asset, net		3
Other assets		1
Total assets classified as held for sale	$	1,514
Accounts payable	$	229
Accrued liabilities		71
Other liabilities		40
Deferred income taxes		167
Total liabilities classified as held for sale	$	507

Other selected financial information for TopBuild during the period owned by us, were as follows, in millions:

	Six Months Ended			
		June 30, 2015		June 30, 2014
Depreciation and amortization	$	6	$	13
Capital expenditures	$	7	$	6

In conjunction with the spin off, we have entered into a Transition Services Agreement with TopBuild to provide TopBuild administrative services subsequent to the separation. The expected fees for services rendered under the Transition Services Agreement are not expected to be material to our results of operations.

C. ACQUISITIONS

In the second quarter of 2015, we acquired a U.K. window business for approximately $16 million in cash in the Other Specialty Products segment. This acquisition will support our U.K. window business growth strategy by expanding its product offerings into timber-alternative windows and doors.

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.

These acquisitions are not material to us. The results of these acquisitions are included in the condensed consolidated financial statements from the date of their respective acquisition.

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

D. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the six months ended June 30, 2015, by segment, were as follows, in millions:

	Gross Goodwill At June 30, 2015	Accumulated Impairment Losses	Net Goodwill At June 30, 2015
Cabinets and Related Products	$ 240	$ (59)	$ 181
Plumbing Products	530	(340)	190
Decorative Architectural Products	294	(75)	219
Other Specialty Products	989	(734)	255
Total	$ 2,053	$ (1,208)	$ 845

	Gross Goodwill At Dec. 31, 2014	Accumulated Impairment Losses	Net Goodwill At Dec. 31, 2014	Acquisitions	Other(A)	Net Goodwill At June 30, 2015
Cabinets and Related Products	$ 240	$ (59)	$ 181	$	$	$ 181
Plumbing Products	531	(340)	191	9	(10)	190
Decorative Architectural Products	294	(75)	219			219
Other Specialty Products	983	(734)	249	6		255
Total	$ 2,048	$ (1,208)	$ 840	$ 15	$ (10)	$ 845

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

Other indefinite-lived intangible assets were $137 million and $130 million at June 30, 2015 and December 31, 2014, respectively, and principally included registered trademarks. The carrying value of our definite-lived intangible assets was $27 million (net of accumulated amortization of $48 million) at June 30, 2015 and $12 million (net of accumulated amortization of $48 million) at December 31, 2014, and principally included customer relationships. As a result of our 2015 acquisitions, other indefinite-lived intangible assets and definite-lived intangible assets increased by $7 million and $17 million, respectively.

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

E. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense, including discontinued operations, was $68 million and $85 million for the six months ended June 30, 2015 and 2014, respectively. Depreciation and amortization expense included accelerated depreciation (relating to business rationalization initiatives) of $1 million for the six months ended June 30, 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:

	June 30, 2015	December 31, 2014
Auction rate securities	$ 22	$ 22
Total recurring investments	22	22
Equity method investments	13	11
Private equity funds	12	14
Other investments	3	3
Total	$ 50	$ 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 June 30, 2015 and December 31, 2014.

Non-Recurring Fair Value Measurements. During the three months and six months ended June 30, 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 six months ended June 30, 2015 or 2014.

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

Note F concluded:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Realized gains from private equity funds	$ 2	$ 3	$ 4	$ 4
Equity investment income (loss), net	2		2	(2)
Total income from financial investments, net	$ 4	$ 3	$ 6	$ 2

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 June 30, 2015 was approximately $3.7 billion, compared with the aggregate carrying value of $3.4 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 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, net within 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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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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Foreign currency contracts				
Exchange contracts	$ (1)	$ (1)	$ 3	$ (3)
Forward contracts			(4)	(1)
Metal contracts	(3)	3	(5)	
Interest rate swaps	(1)	(1)	(1)	(1)
Total (loss) gain	$ (5)	$ 1	$ (7)	$ (5)

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

	At June 30, 2015 Notional Amount	At June 30, 2015 Balance Sheet
Foreign currency contracts		
Exchange contracts	$ 18	
Receivables		$ 1
Forward contracts	49	
Accrued liabilities		(3)
Other liabilities		(1)
Metals contracts	75	
Accrued liabilities		(6)

At December 31, 2014

	Notional Amount	Balance Sheet
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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)

H. WARRANTY LIABILITY

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

	Six Months Ended June 30, 2015	Twelve Months Ended December 31, 2014
Balance at January 1	$ 135	$ 124
Accruals for warranties issued during the period	25	51
Accruals related to pre-existing warranties	3	11
Settlements made (in cash or kind) during the period	(24)	(46)
Other, net (including currency translation)	(1)	(5)
Balance at end of period	$ 138	$ 135

I. DEBT

On June 15, 2015, we repaid and retired all of our $500 million, 4.8% Notes on the scheduled retirement date.

On March 24, 2015, we issued $500 million of 4.45% Notes due April 1, 2025. These 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. On May 29, 2015, we entered into an amendment of the Credit Agreement with the bank group (the Amended Credit Agreement). The Amended Credit Agreement reduces the aggregate commitment to $750 million and extends the maturity date to May 29, 2020. Under the Amended Credit Agreement, at our request and subject to certain conditions, we can increase the aggregate commitment up to an additional $375 million with the current bank group or new lenders.

The Amended Credit Agreement provides for an unsecured revolving credit facility available to us and one of our foreign subsidiaries, in U.S. dollars, European euros and certain other currencies. Borrowings under the revolver denominated in euros are limited to $500 million, equivalent. We can also borrow swingline loans up to $75 million and obtain letters of credit of up to $100 million; any outstanding letters of credit under the Amended Credit Agreement reduce our borrowing capacity. At June 30, 2015, we had $72 million of outstanding standby letters of credit.

Revolving credit loans bear interest under the Amended Credit Agreement, at our option, at (A) a rate per annum equal to the greater of (i) the prime rate, (ii) the Federal Funds effective rate plus 0.50% and (iii) LIBOR plus 1.0% (the Alternative Base Rate); plus an applicable margin based upon our then-applicable corporate credit ratings; or (B) LIBOR plus an applicable margin based upon our then-applicable corporate credit ratings. The foreign currency revolving credit loans bear interest at a rate equal to LIBOR plus an applicable margin based upon our then-applicable corporate credit ratings.

The Amended Credit Agreement contains financial covenants requiring us to maintain (A) a maximum net leverage ratio, as adjusted for certain items, of 4.0 to 1.0, and (B) a minimum interest coverage ratio, as adjusted for certain items, equal to or greater than 2.5 to 1.0.

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

Note I concluded:

In order for us to borrow under the Amended Credit Agreement, there must not be any default in our covenants in the Amended 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 Amended 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, 2014, 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 June 30, 2015.

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 June 30, 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Long-term stock awards	$ 7	$ 11	$ 13	$ 21
Stock options	3	1	4	2
Phantom stock awards and stock appreciation rights	3	1	6	1
Total	$ 13	$ 13	$ 23	$ 24
Income tax benefit (37 percent tax rate before valuation allowance)	$ 5	$ 5	$ 9	$ 9

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 719,546 shares of long-term stock awards in the six months ended June 30, 2015.

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MASCO CORPORATION

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

Note J continued:

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

	Six Months Ended June 30,	
	2015	**2014**