

MASCO CORP /DE/  
Form 10-Q  
October 28, 2010

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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 September 30, 2010**

**Commission file number: 1-5794**

**Masco Corporation**

(Exact name of Registrant as Specified in its Charter)

**Delaware**

**38-1794485**

(State or Other  
Jurisdiction  
of Incorporation)

(IRS Employer  
Identification No.)

**21001 Van Born Road, Taylor, Michigan**

**48180**

(Address of Principal Executive Offices)

(Zip Code)

**(313) 274-7400**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(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 October 26, 2010

Common stock, par value \$1.00 per share

358,500,000

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**MASCO CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**  
**September 30, 2010 and December 31, 2009**  
(In Millions, Except Share Data)

|                                 | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|---------------------------------|-----------------------------------|----------------------------------|
| <b>ASSETS</b>                   |                                   |                                  |
| Current assets:                 |                                   |                                  |
| Cash and cash investments       | \$ 1,537                          | \$ 1,413                         |
| Receivables                     | 1,106                             | 983                              |
| Prepaid expenses and other      | 288                               | 312                              |
| Inventories:                    |                                   |                                  |
| Finished goods                  | 431                               | 405                              |
| Raw material                    | 268                               | 247                              |
| Work in process                 | 103                               | 91                               |
|                                 | 802                               | 743                              |
| Total current assets            | 3,733                             | 3,451                            |
| Property and equipment, net     | 1,838                             | 1,981                            |
| Goodwill                        | 3,098                             | 3,108                            |
| Other intangible assets, net    | 282                               | 290                              |
| Other assets                    | 302                               | 345                              |
| Total assets                    | \$ 9,253                          | \$ 9,175                         |
| <b>LIABILITIES</b>              |                                   |                                  |
| Current liabilities:            |                                   |                                  |
| Notes payable                   | \$ 66                             | \$ 364                           |
| Accounts payable                | 650                               | 578                              |
| Accrued liabilities             | 842                               | 839                              |
| Total current liabilities       | 1,558                             | 1,781                            |
| Long-term debt                  | 4,036                             | 3,604                            |
| Deferred income taxes and other | 959                               | 973                              |
| Total liabilities               | 6,553                             | 6,358                            |

Commitments and contingencies

**EQUITY**

Masco Corporation's shareholders' equity:

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|  |          |          |
|--|----------|----------|
| Common shares, par value \$1 per share Authorized shares: 1,400,000,000;<br>issued and outstanding: 2010 348,400,000; 2009 350,400,000 | 348      | 350      |
| Preferred shares authorized: 1,000,000; issued and outstanding: 2010 None;<br>2009 None  |          |          |
| Paid-in capital  | 36       | 42       |
| Retained earnings  | 1,782    | 1,871    |
| Accumulated other comprehensive income   | 339      | 366      |
| Total Masco Corporation s shareholders equity  | 2,505    | 2,629    |
| Noncontrolling interest  | 195      | 188      |
| Total equity   | 2,700    | 2,817    |
| Total liabilities and equity   | \$ 9,253 | \$ 9,175 |

See notes to condensed consolidated financial statements.

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**MASCO CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**  
**For the Three Months and Nine Months Ended September 30, 2010 and 2009**  
**(In Millions Except Per Common Share Data)**

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Net sales  | \$ 1,957                  | \$ 2,084    | \$ 5,857                 | \$ 5,894    |
| Cost of sales  | 1,463                     | 1,517       | 4,325                    | 4,371       |
| Gross profit   | 494                       | 567         | 1,532                    | 1,523       |
| Selling, general and administrative expenses                               | 392                       | 429         | 1,233                    | 1,263       |
| Charge for defined-benefit plan curtailment                                |                           |             |                          | 8           |
| Operating profit   | 102                       | 138         | 299                      | 252         |
| Other income (expense), net:   |                           |             |                          |             |
| Interest expense   | (63)                      | (56)        | (188)                    | (169)       |
| Impairment charge for financial investments                                |                           |             | (33)                     | (10)        |
| Other, net   | (1)                       | 7           | (2)                      | 22          |
|  | (64)                      | (49)        | (223)                    | (157)       |
| Income from continuing operations before income taxes                      | 38                        | 89          | 76                       | 95          |
| Income tax expense   | 31                        | 26          | 53                       | 35          |
| Income from continuing operations  | 7                         | 63          | 23                       | 60          |
| Loss from discontinued operations, net                                     |                           | (23)        |                          | (31)        |
| Net income   | 7                         | 40          | 23                       | 29          |
| Less: Net income attributable to noncontrolling interest                   | 12                        | 12          | 32                       | 27          |
| Net (loss) income attributable to Masco Corporation                        | \$ (5)                    | \$ 28       | \$ (9)                   | \$ 2        |
| <b>Earnings (loss) per common share attributable to Masco Corporation:</b> |                           |             |                          |             |
| Basic:   |                           |             |                          |             |
| (Loss) income from continuing operations                                   | \$ (.02)                  | \$ .14      | \$ (.03)                 | \$ .09      |
| Loss from discontinued operations, net                                     |                           | (.06)       |                          | (.09)       |
| Net (loss) income  | \$ (.02)                  | \$ .08      | \$ (.03)                 | \$ .00      |
| Diluted:   |                           |             |                          |             |

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|  |          |        |          |        |
|--|----------|--------|----------|--------|
| (Loss) income from continuing operations | \$ (.02) | \$ .14 | \$ (.03) | \$ .09 |
| Loss from discontinued operations, net   |          | (.06)  |          | (.09)  |
| Net (loss) income                        | \$ (.02) | \$ .08 | \$ (.03) | \$ .00 |

**Amounts attributable to Masco Corporation:**

|  |        |       |        |       |
|--|--------|-------|--------|-------|
| (Loss) income from continuing operations | \$ (5) | \$ 51 | \$ (9) | \$ 33 |
| Loss from discontinued operations, net   |        | (23)  |        | (31)  |
| Net (loss) income                        | \$ (5) | \$ 28 | \$ (9) | \$ 2  |

See notes to condensed consolidated financial statements.



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**MASCO CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
**For the Nine Months Ended September 30, 2010 and 2009**  
(In Millions)

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2010</b>                                | <b>2009</b> |
| <b>CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:</b>           |  |             |
| Cash provided by operations                                  | \$ 333                                     | \$ 384      |
| Increase in receivables                                      | (136)                                      | (187)       |
| (Increase) decrease in inventories                           | (64)                                       | 149         |
| Increase in accounts payable and accrued liabilities, net    | 103  | 69          |
| <br>   |  |             |
| Net cash from operating activities                           | 236  | 415         |
| <br>   |  |             |
| <b>CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:</b>           |  |             |
| Increase in debt   | 2  | 4           |
| Payment of debt  | (3)  | (12)        |
| Issuance of Notes, net of issuance costs                     | 494  |             |
| Retirement of Notes  | (359)                                      |             |
| Purchase of Company common stock                             | (45)                                       | (11)        |
| Cash dividends paid  | (81)                                       | (139)       |
| Dividend payment to noncontrolling interest                  | (15)                                       | (16)        |
| Credit Agreement costs                                       | (9)  |             |
| <br>   |  |             |
| Net cash for financing activities                            | (16)                                       | (174)       |
| <br>   |  |             |
| <b>CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:</b>           |  |             |
| Capital expenditures   | (88)                                       | (70)        |
| Proceeds from disposition of:                                |  |             |
| Marketable securities  | 5  | 4           |
| Other financial investments, net                             | 6  | 2           |
| Businesses, net of cash disposed                             |  | 3           |
| Property and equipment                                       | 16   | 20          |
| Acquisition of businesses, net of cash acquired              |  | (8)         |
| Other, net   | (26)                                       | (25)        |
| <br>   |  |             |
| Net cash for investing activities                            | (87)                                       | (74)        |
| <br>   |  |             |
| Effect of exchange rate changes on cash and cash investments | (9)  | 4           |

**CASH AND CASH INVESTMENTS:**

|                         |          |          |
|-------------------------|----------|----------|
| Increase for the period | 124      | 171      |
| At January 1            | 1,413    | 1,028    |
| At September 30         | \$ 1,537 | \$ 1,199 |

See notes to condensed consolidated financial statements.

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**Table of Contents****MASCO CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****A. Accounting Policies**

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 September 30, 2010 and the results of operations for the three months and nine months ended September 30, 2010 and 2009 and cash flows for the nine months ended September 30, 2010 and 2009. The condensed consolidated balance sheet at December 31, 2009 was derived from audited financial statements.

Certain prior-year amounts have been reclassified to conform to the 2010 presentation in the condensed consolidated financial statements. The results of operations related to 2009 discontinued operations have been separately stated in the accompanying condensed consolidated statements of income for the three months and nine months ended September 30, 2009. In the Company's condensed consolidated statements of cash flows for the nine months ended September 30, 2009, cash flows of discontinued operations are not separately classified.

*Recently Issued Accounting Pronouncements*

Effective January 1, 2010, the Company adopted new FASB guidance regarding how a company determines when an entity is insufficiently capitalized or is not controlled through voting and should be consolidated. The adoption of this guidance did not have any impact on the Company's consolidated financial condition and results of operations.

**B. Discontinued Operations**

B. The Company has accounted for 2009 dispositions as discontinued operations.

Selected financial information for these discontinued operations was as follows, in millions:

|   | <b>Three Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> |
|---|--|---|
| Net sales                                   | \$ 13  | \$ 57   |
| Loss from discontinued operations           | \$ (2)   | \$ (11)   |
| Loss on disposal of discontinued operations | (22)   | (21)  |
| Loss before income tax                      | (24)   | (32)  |
| Income tax benefit                          | 1  | 1   |
| Loss from discontinued operations, net      | \$ (23)  | \$ (31)   |

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

## C. Goodwill and Other Intangible Assets

C. The changes in the carrying amount of goodwill for the nine months ended September 30, 2010, by segment, were as follows, in millions:

|                                   | <b>Gross<br/>Goodwill<br/>At<br/>Sep. 30, 2010</b> | <b>Accumulated<br/>Impairment<br/>Losses</b> | <b>Net<br/>Goodwill<br/>At<br/>Sep. 30,<br/>2010</b> |
|-----------------------------------|--|--|--|
| Cabinets and Related Products     | \$ 588   | \$ (364)                                     | \$ 224   |
| Plumbing Products                 | 539  | (340)  | 199  |
| Installation and Other Services   | 1,819  | (51)   | 1,768  |
| Decorative Architectural Products | 294  |  | 294  |
| Other Specialty Products          | 980  | (367)  | 613  |
| Total                             | \$ 4,220   | \$ (1,122)                                   | \$ 3,098   |

|                                   | <b>Gross<br/>Goodwill<br/>At<br/>Dec. 31,<br/>2009</b> | <b>Accumulated<br/>Impairment<br/>Losses</b> | <b>Net<br/>Goodwill<br/>At<br/>Dec. 31,<br/>2009</b> | <b>Other(A)</b> | <b>At<br/>Sep. 30,<br/>2010</b> |
|-----------------------------------|--|--|--|-----------------|---------------------------------|
| Cabinets and Related Products     | \$ 590   | \$ (364)                                     | \$ 226   | \$ (2)          | \$ 224                          |
| Plumbing Products                 | 547  | (340)  | 207  | (8)             | 199                             |
| Installation and Other Services   | 1,819  | (51)   | 1,768  |                 | 1,768                           |
| Decorative Architectural Products | 294  |  | 294  |                 | 294                             |
| Other Specialty Products          | 980  | (367)  | 613  |                 | 613                             |
| Total                             | \$ 4,230   | \$ (1,122)                                   | \$ 3,108   | \$ (10)         | \$ 3,098                        |

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

Other indefinite-lived intangible assets were \$195 million and \$196 million at September 30, 2010 and December 31, 2009, respectively, and principally included registered trademarks. The carrying value of the Company's definite-lived intangible assets was \$87 million (net of accumulated amortization of \$73 million) at September 30, 2010 and \$94 million (net of accumulated amortization of \$67 million) at December 31, 2009, and principally included customer relationships and non-compete agreements.

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

## D. Depreciation and Amortization Expense

D. Depreciation and amortization expense was \$209 million and \$190 million, respectively, for the nine months ended September 30, 2010 and 2009.

## E. Fair Value of Financial Investments and Liabilities

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

|                                       | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|---------------------------------------|-----------------------------------|----------------------------------|
| Asahi Tec Corporation preferred stock | \$ 10                             | \$ 71                            |
| Auction rate securities               | 22                                | 22                               |
| TriMas Corporation common stock       | 36                                | 17                               |
| Total recurring investments           | 68                                | 110                              |
| Private equity funds                  | 115                               | 123                              |
| Other investments                     | 9                                 | 9                                |
| Total non-recurring investments       | 124                               | 132                              |
| Total                                 | \$ 192                            | \$ 242                           |

The Company's investments in available-for-sale securities at September 30, 2010 and December 31, 2009 were as follows, in millions:

|                    | <b>Cost<br/>Basis</b> | <b>Pre-tax<br/>Unrealized<br/>Gains</b> | <b>Pre-tax<br/>Unrealized<br/>Losses</b> | <b>Recorded<br/>Basis</b> |
|--------------------|-----------------------|---|--|---------------------------|
| September 30, 2010 | \$ 35                 | \$35                                    | \$ 2                                     | \$ 68                     |
| December 31, 2009  | \$ 71                 | \$39                                    | \$                                       | \$110                     |

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

Note E continued:

*Recurring Fair Value Measurements.* Financial assets and (liabilities) measured at fair value on a recurring basis at each reporting period and the amounts for each level within the fair value hierarchy were as follows, in millions:

|                         | Sep.<br>30,<br>2010 | Fair Value Measurements Using              |   |  |
|-------------------------|---------------------|--|---|--|
|                         |                     | Quoted<br>Market<br>Prices<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Asahi Tec Corporation:  |                     |  |   |  |
| Preferred stock         | \$ 10               | \$   | \$ 10   | \$   |
| Auction rate securities | 22                  |  |   | 22   |
| TriMas Corporation      | 36                  | 36   |   |  |
| Total                   | \$ 68               | \$ 36                                      | \$ 10   | \$ 22  |

|                         | Dec.<br>31,<br>2009 | Fair Value Measurements Using              |   |  |
|-------------------------|---------------------|--|---|--|
|                         |                     | Quoted<br>Market<br>Prices<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Asahi Tec Corporation:  |                     |  |   |  |
| Preferred stock         | \$ 71               | \$   | \$  | \$ 71  |
| Auction rate securities | 22                  |  |   | 22   |
| TriMas Corporation      | 17                  | 17   |   |  |
| Total                   | \$ 110              | \$ 17                                      | \$  | \$ 93  |

The Company did not have any transfers between Level 1 and Level 2 financial assets in the first nine months of 2010 or in the full-year 2009.

The fair value of the auction rate securities held by the Company 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 (approximately four percent and six percent at September 30, 2010 and December 31, 2009, respectively) and the assumptions for credit defaults, since the auction rate securities are backed by credit default swap agreements.

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

Note E continued:

During the second quarter of 2010, Asahi Tec approached the Company with an offer to amend the terms of the preferred stock held by the Company. The request was made by Asahi Tec in order to facilitate early negotiations with their bank group for debt that matures in early 2011. The Company and Asahi Tec agreed to amend the preferred stock to include a more favorable conversion feature into common stock and to include a mandatory conversion date of February 28, 2011. The Company agreed to this amendment based on favorable tax benefits related to the Asahi Tec investment. Prior to this amendment, the Company could have settled in cash or common stock in 2017. As a result of the amendment, the Company recognized a \$28 million impairment loss based on the current fair value of the preferred stock on an if-converted basis at June 30, 2010. Also, as a result of the amendment, the Company reversed an unrealized gain of \$23 million that was previously included in accumulated other comprehensive income. On a quarterly basis, the Asahi Tec Preferred Stock will now be valued based on the trading price of the Asahi Tec common stock (Level 2 input). During the third quarter of 2010, the Company converted and sold \$8 million of its investment in Asahi Tec and recognized a loss on the sale of \$3 million for the three months ended September 30, 2010.

In the past, the preferred stock of Asahi Tec was valued primarily using a discounted cash flow model, because there were previously no observable prices in an active market for the same or similar securities. The significant inputs in the discounted cash flow model previously used to value the Asahi Tec preferred stock included: the present value of future dividends, present value of redemption rights, fair value of conversion rights and the discount rate based on credit spreads for Japanese-issued preferred securities (approximately 600 basis points at December 31, 2009) and other market factors.

The following table summarizes the changes in Level 3 financial assets measured at fair value on a recurring basis for the nine months ended September 30, 2010 and the year ended December 31, 2009, in millions:

|                                   | <b>Asahi Tec<br/>Preferred<br/>Stock</b> | <b>Auction<br/>Rate<br/>Securities</b> | <b>Total</b> |
|-----------------------------------|--|--|--------------|
| Fair value January 1, 2010        | \$ 71                                    | \$ 22                                  | \$ 93        |
| Total losses included in earnings | (28)                                     |  | (28)         |
| Unrealized (losses)               | (23)                                     |  | (23)         |
| Purchases                         |  |  |              |
| Settlements                       |  |  |              |
| Transfer from Level 3 to Level 2  | (20)                                     |  | (20)         |
| Fair value at September 30, 2010  | \$                                       | \$ 22                                  | \$ 22        |

|                                   | <b>Asahi Tec<br/>Preferred<br/>Stock</b> | <b>Auction<br/>Rate<br/>Securities</b> | <b>Total</b> |
|-----------------------------------|--|--|--------------|
| Fair value January 1, 2009        | \$ 72                                    | \$ 22                                  | \$ 94        |
| Total losses included in earnings |  |  |              |
| Unrealized (losses)               | (1)                                      |  | (1)          |
| Purchases, issuances, settlements |  |  |              |
| Fair value at December 31, 2009   | \$ 71                                    | \$ 22                                  | \$ 93        |





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

Note E continued:

*Non-Recurring Fair Value Measurements.* Financial investments measured at fair value on a non-recurring basis during the period and the amounts for each level within the fair value hierarchy were as follows, in millions:

|                           | <b>Fair Value Measurements Using</b> |                   |                     |              | <b>Total</b>    |
|---------------------------|--------------------------------------|-------------------|---------------------|--------------|-----------------|
|                           | <b>Quoted</b>                        | <b>Other</b>      | <b>Significant</b>  | <b>Gains</b> |                 |
| <b>Sep.</b>               | <b>Market</b>                        | <b>Observable</b> | <b>Unobservable</b> |              | <b>(Losses)</b> |
| <b>30,</b>                | <b>Prices</b>                        | <b>Inputs</b>     | <b>Inputs</b>       |              |                 |
| <b>2010</b>               | <b>(Level</b>                        | <b>(Level 2)</b>  | <b>(Level 3)</b>    |              |                 |
|                           | <b>1)</b>                            |                   |                     |              |                 |
| Private equity funds      | \$ 2                                 | \$                | \$ 2                | \$ (3)       |                 |
| Other private investments |                                      |                   |                     | (2)          |                 |
|                           | \$ 2                                 | \$                | \$ 2                | \$ (5)       |                 |

  

|                           | <b>Fair Value Measurements Using</b> |                   |                     |              | <b>Total</b>    |
|---------------------------|--------------------------------------|-------------------|---------------------|--------------|-----------------|
|                           | <b>Quoted</b>                        | <b>Other</b>      | <b>Significant</b>  | <b>Gains</b> |                 |
| <b>Dec.</b>               | <b>Market</b>                        | <b>Observable</b> | <b>Unobservable</b> |              | <b>(Losses)</b> |
| <b>31,</b>                | <b>Prices</b>                        | <b>Inputs</b>     | <b>Inputs</b>       |              |                 |
| <b>2009</b>               | <b>(Level</b>                        | <b>(Level 2)</b>  | <b>(Level 3)</b>    |              |                 |
|                           | <b>1)</b>                            |                   |                     |              |                 |
| Private equity funds      | \$ 31                                | \$                | \$ 31               | \$ (10)      |                 |
| Other private investments | 3                                    |                   | 3                   |              |                 |
|                           | \$ 34                                | \$                | \$ 34               | \$ (10)      |                 |

During the second quarter of 2010, based on information from the fund manager, the Company determined that the decline in the estimated value of two private equity funds (with an aggregate carrying value of \$5 million prior to impairment) was other-than-temporary and, accordingly, recognized non-cash, pre-tax impairment charges of \$3 million. The remaining private equity investments, with an aggregate carrying value of \$113 million at September 30, 2010, were not evaluated for impairment, as there were no indicators of impairment or identified events or changes in circumstances that would have a significant adverse effect on the fair value of the investments. During the second quarter of 2010, the Company also determined that the decline in the estimated value of one private investment was other-than-temporary and, accordingly, recognized a non-cash, pre-tax impairment charge of \$2 million. The Company did not have any transfers between Level 1 and Level 2 financial assets in the first nine months of 2010 or in the full-year 2009.

During 2009, the Company determined that the decline in the estimated value of certain private equity funds (with an aggregate carrying value of \$41 million prior to impairment) was other-than-temporary and, accordingly, recognized non-cash, pre-tax impairment charges of \$10 million for the year ended December 31, 2009. The remaining private equity investments, with an aggregate carrying value of \$92 million at December 31, 2009, were not evaluated for impairment, as there were no indicators of impairment or identified events or changes in

circumstances that would have a significant adverse effect on the fair value of the investments.

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

Note E concluded:

Loss from financial investments, net, was \$3 million and \$2 million, respectively, for the three months and nine months ended September 30, 2010.

Impairment charges for financial investments were as follows, in millions:

|                           | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---------------------------|---------------------------|-------------|--------------------------|-------------|
|                           | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                           | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Impairment charges:       |                           |             |                          |             |
| Asahi Tec Preferred Stock | \$                        | \$          | \$ (28)                  | \$          |
| Private equity funds      |                           |             | (3)                      | (10)        |
| Other private investments |                           |             | (2)                      |             |
| Total impairment charges  | \$                        | \$          | \$ (33)                  | \$ (10)     |

The fair value of the Company's short-term and long-term fixed-rate debt instruments is based principally upon quoted market prices for the same or similar issues or the current rates available to the Company for debt with similar terms and remaining maturities. The aggregate estimated market value of short-term and long-term debt at September 30, 2010 was approximately \$4.1 billion, compared with the aggregate carrying value of \$4.1 billion. The aggregate estimated market value of short-term and long-term debt at December 31, 2009 was approximately \$3.9 billion, compared with the aggregate carrying value of \$4.0 billion.

#### F. Derivatives

F. During 2010 and 2009, the Company entered into foreign currency exchange contracts to hedge currency fluctuations related to intercompany loans denominated in non-functional currencies. At September 30, 2010, the Company had recorded losses of \$5 million on the foreign currency exchange contracts, which is partially offset by gains related to the translation of loans and accounts denominated in non-functional currencies. At December 31, 2009, the Company had no recorded asset or liability related to foreign currency exchange contracts. Gains (losses) related to these contracts are recorded in the Company's consolidated statements of income in other income (expense), net. For the nine months ended September 30, 2010 and 2009, the Company had recorded losses of \$5 million and \$1 million, respectively, related to these foreign currency exchange contracts. For the three months ended September 30, 2010 and 2009, the Company had recorded gains (losses) of \$(10) million and \$2 million, respectively, related to these foreign currency exchange contracts.

During 2010 and 2009, the Company, including certain European operations, also entered into foreign currency forward contracts to manage a portion of its exposure to currency fluctuations in the European euro and the U.S. dollar. Based upon period-end market prices, the Company had recorded liabilities of \$(2) million and \$(1) million to reflect contract prices at September 30, 2010 and December 31, 2009, respectively. Gains (losses) related to these contracts are recorded in the Company's consolidated statements of income in other income (expense), net. For the nine months ended September 30, 2010 and 2009, the Company had recorded (losses) of \$(1) million and \$(2) million, respectively, related to these foreign currency exchange contracts. For the three months ended September 30, 2010 and 2009, the Company had recorded gains (losses) of \$1 million and \$(1) million, respectively, related to these foreign currency exchange contracts.

In the event that the counterparties fail to meet the terms of the foreign currency forward contracts, the Company's exposure is limited to the aggregate foreign currency rate differential with such institutions.



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

Note F concluded:

During 2010, the Company entered into several contracts to manage its exposure to increases in the price of copper and zinc. Based upon period-end market prices, the Company had recorded assets of \$3 million to reflect contract prices at September 30, 2010. Gains (losses) related to these contracts are recorded in the Company's consolidated statements of income in cost of goods sold. For the three months and nine months ended September 30, 2010, the Company had recorded gains of \$4 million and \$3 million, respectively, related to these contracts.

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

**G. Warranty**

G. Changes in the Company's warranty liability were as follows, in millions:

|  | <b>Nine Months<br/>Ended<br/>September 30,<br/>2010</b> | <b>Twelve Months<br/>Ended<br/>December 31,<br/>2009</b> |
|--|---|--|
| Balance at January 1                                 | \$ 109  | \$ 119   |
| Accruals for warranties issued during the period     | 30  | 32   |
| Accruals related to pre-existing warranties          | (2)   | 5  |
| Settlements made (in cash or kind) during the period | (28)  | (44)   |
| Other, net   | (2)   | (3)  |
| Balance at end of period                             | \$ 107  | \$ 109   |

**H. Debt**

H. At September 30, 2010 and December 31, 2009, there were outstanding \$108 million principal amount at maturity of Zero Coupon Convertible Senior Notes due 2031, with an accreted value of \$57 million and \$55 million, respectively.

The Company retired \$300 million of floating rate notes on March 12, 2010, the scheduled maturity date.

On March 10, 2010, the Company issued \$500 million of 7.125% Notes (Notes) due March 15, 2020. The Notes are senior indebtedness and are redeemable at the Company's option.

During the second quarter of 2010, the Company repurchased \$59 million of 5.875% Notes due July 2012, in open-market transactions. The Company paid a premium of \$2 million over par value on the purchase of the notes; such expense was included in interest expense.

On June 21, 2010, the Company entered into a Credit Agreement (the New Credit Agreement) dated as of June 21, 2010, with a bank group, with an aggregate commitment of \$1.25 billion with a maturity date of January 10, 2014. The Company's 5-Year Revolving Credit Agreement dated as of November 5, 2004, as amended, with an aggregate commitment of \$1.25 billion, was terminated.

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**MASCO CORPORATION**

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

Note H concluded:

The New Credit Agreement provides for an unsecured revolving credit facility available to the Company and one of its 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. The Company can also borrow swingline loans up to \$150 million and obtain letters of credit of up to \$250 million; any outstanding Letters of Credit reduce the Company's borrowing capacity. At September 30, 2010, the Company had \$100 million of unused Letters of Credit, reducing the Company's borrowing capacity by such amount.

Revolving credit loans bear interest under the New Credit Agreement, at the Company's option: at (A) a rate per annum equal to the greatest of (i) 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 the then applicable corporate credit ratings of the Company; or (B) LIBOR plus an applicable margin based upon the then applicable corporate credit ratings of the Company. The foreign currency revolving credit loans bear interest at a rate equal to LIBOR plus an applicable margin based upon the then applicable corporate credit ratings of the Company.

The New Credit Agreement contains financial covenants requiring the Company to maintain (A) a maximum debt to total capitalization ratio of 65 percent, and (B) a minimum interest coverage ratio equal to or greater than (i) 2.25 to 1.0 through the quarter ending on September 30, 2011 and (ii) 2.50 to 1.0 thereafter. The debt to total capitalization ratio allows the add-back, if incurred, of up to the first \$500 million of certain non-cash charges, including goodwill and other intangible asset impairment charges, occurring from and after April 1, 2010, that would negatively impact shareholders' equity.

Based on the limitations of the debt to total capitalization covenant, at September 30, 2010, the Company had additional borrowing capacity, subject to availability, of up to \$1.2 billion. Alternatively, at September 30, 2010, the Company could absorb a reduction to shareholders' equity of approximately \$700 million, and remain in compliance with the debt to total capitalization covenant.

In order to borrow under the New Credit Agreement, there must not be any default in the Company's 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 the Company's 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, 2009, in each case, no material ERISA or environmental non-compliance and no material tax deficiency). The Company was in compliance with all covenants and no borrowings have been made at September 30, 2010.

**Table of Contents****MASCO CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (continued)****I. Stock Based Compensation**

I. The Company's 2005 Long Term Stock Incentive Plan (the 2005 Plan) provides for the issuance of stock-based incentives in various forms to employees and non-employee Directors of the Company. At September 30, 2010, 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:

|  | <b>Three Months Ended</b> |              | <b>Nine Months Ended</b> |              |
|--|---------------------------|--------------|--------------------------|--------------|
|  | <b>September 30,</b>      |              | <b>September 30,</b>     |              |
|  | <b>2010</b>               | <b>2009</b>  | <b>2010</b>              | <b>2009</b>  |
| Long-term stock awards                             | \$ 9                      | \$ 7         | \$ 28                    | \$ 28        |
| Stock options                                      | 6                         | 6            | 17                       | 21           |
| Phantom stock awards and stock appreciation rights | 1                         | 3            |                          | 5            |
| <b>Total</b>                                       | <b>\$ 16</b>              | <b>\$ 16</b> | <b>\$ 45</b>             | <b>\$ 54</b> |
| <br>   |                           |              |                          |              |
| Income tax benefit                                 | \$ 6                      | \$ 6         | \$ 17                    | \$ 20        |

In June 2009, the Company recognized \$6 million of accelerated stock compensation expense (for previously granted stock awards and options) related to the retirement from full-time employment of the Company's Executive Chairman of the Board of Directors; he continues to serve as a non-executive, non-employee Chairman of the Board of Directors.

**Long-Term Stock Awards**

Long-term stock awards are granted to key employees and non-employee Directors of the Company and do not cause net share dilution inasmuch as the Company continues the practice of repurchasing and retiring an equal number of shares on the open market. Stock awards granted prior to January 1, 2010 have a typical vesting period of 10 years. Stock awards granted subsequent to January 1, 2010 have a vesting period of 5 years.

The Company's long-term stock award activity was as follows, shares in millions:

|  | <b>Nine Months Ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2010</b>              | <b>2009</b> |
| Unvested stock award shares at January 1 | 9                        | 8           |
| Weighted average grant date fair value   | \$21                     | \$26        |
| <br>                                     |                          |             |
| Stock award shares granted               | 3                        | 2           |
| Weighted average grant date fair value   | \$14                     | \$ 8        |
| <br>                                     |                          |             |
| Stock award shares vested                | 2                        | 1           |
| Weighted average grant date fair value   | \$23                     | \$26        |
| <br>                                     |                          |             |
| Stock award shares forfeited             |                          |             |
| Weighted average grant date fair value   | \$19                     | \$25        |

|   |    |      |      |
|---|----|------|------|
| Unvested stock award shares at September 30 |    | 10   | 9    |
| Weighted average grant date fair value      |    | \$19 | \$22 |
|   | 13 |      |      |

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**MASCO CORPORATION**

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

Note I continued:

At September 30, 2010 and 2009, there was \$136 million and \$135 million, respectively, of total unrecognized compensation expense related to unvested stock awards; such awards had a weighted average remaining vesting period of five years and seven years, respectively.

The total market value (at the vesting date) of stock award shares which vested during the nine months ended September 30, 2010 and 2009 was \$22 million and \$16 million, respectively.

**Stock Options**

Stock options are granted to key employees and, prior to 2010, to non-employee Directors of the Company. The exercise price equals the market price of the Company's 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.

The Company granted 5,205,100 of stock option shares in the nine months ended September 30, 2010 with a grant date exercise price approximating \$14 per share. In the first nine months of 2010, 3,552,100 stock option shares were forfeited (including options that expired unexercised).

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

Note I continued:

The Company's stock option activity was as follows, shares in millions:

|   | <b>Nine Months Ended<br/>September 30,</b> |              |
|---|--|--------------|
|   | <b>2010</b>                                | <b>2009</b>  |
| Option shares outstanding, January 1                    | 36   | 31           |
| Weighted average exercise price                         | \$ 23                                      | \$ 25        |
| Option shares granted, including restoration options    | 5  | 6            |
| Weighted average exercise price                         | \$ 14                                      | \$ 8         |
| Option shares exercised                                 |  |              |
| Aggregate intrinsic value on date of exercise (A)       | \$1 million                                | \$           |
| Weighted average exercise price                         | \$ 8                                       | \$           |
| Option shares forfeited                                 | 4  | 1            |
| Weighted average exercise price                         | \$ 23                                      | \$ 23        |
| Option shares outstanding, September 30                 | 37   | 36           |
| Weighted average exercise price                         | \$ 21                                      | \$ 23        |
| Weighted average remaining option term (in years)       | 6  | 6            |
| Option shares vested and expected to vest, September 30 | 37   | 36           |
| Weighted average exercise price                         | \$ 22                                      | \$ 23        |
| Aggregate intrinsic value (A)                           | \$15 million                               | \$26 million |
| Weighted average remaining option term (in years)       | 6  | 6            |
| Option shares exercisable (vested), September 30        | 22   | 21           |
| Weighted average exercise price                         | \$ 25                                      | \$ 26        |
| Aggregate intrinsic value (A)                           | \$3 million                                | \$           |
| Weighted average remaining option term (in years)       | 4  | 4            |

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

At September 30, 2010 and 2009, there was \$50 million and \$47 million, respectively, of unrecognized compensation expense (using the Black-Scholes option pricing model) related to unvested stock options; such

options had a weighted average vesting period of three years in 2010 and 2009.

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

Note I 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:

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2010</b>                                | <b>2009</b> |
| Weighted average grant date fair value | \$ 5.30                                    | \$ 2.23     |
| Risk-free interest rate                | 2.77%                                      | 2.59%       |
| Dividend yield                         | 2.17%                                      | 3.73%       |
| Volatility factor                      | 46.01%                                     | 39.07%      |
| Expected option life                   | 6 years                                    | 6 years     |

**J. Employee Retirement Plans**

J. The Company sponsors qualified defined-benefit or defined-contribution retirement plans for most of its employees. In addition to the Company's qualified defined-benefit pension plans, the Company has unfunded non-qualified defined-benefit pension plans covering certain employees, which provide for benefits in addition to those provided by the qualified pension plans. Substantially all salaried employees participate in non-contributory defined-contribution retirement plans, to which payments are determined annually by the Organization and Compensation Committee of the Board of Directors.

Effective January 1, 2010, the Company froze all future benefit accruals under substantially all of the Company's domestic qualified and non-qualified defined-benefit pension plans.

Net periodic pension cost for the Company's defined-benefit pension plans was as follows, in millions:

|                                    | <b>Three Months ended September 30,</b> |                      |                  |                      |
|------------------------------------|---|----------------------|------------------|----------------------|
|                                    | <b>2010</b>                             |                      | <b>2009</b>      |                      |
|                                    | <b>Qualified</b>                        | <b>Non-Qualified</b> | <b>Qualified</b> | <b>Non-Qualified</b> |
| Service cost                       | \$ 2                                    | \$                   | \$ 3             | \$                   |
| Interest cost                      | 11                                      | 3                    | 7                | 2                    |
| Expected return on plan assets     | (9)                                     |                      | (5)              |                      |
| Amortization of prior service cost |   |                      |                  |                      |
| Recognized curtailment loss        |   |                      |                  |                      |
| Amortization of net loss           | 3                                       |                      | 3                |                      |
| Net periodic pension cost          | \$ 7                                    | \$ 3                 | 8                | 2                    |

|                                    | <b>Nine Months ended September 30,</b> |                      |                  |                      |
|------------------------------------|--|----------------------|------------------|----------------------|
|                                    | <b>2010</b>                            |                      | <b>2009</b>      |                      |
|                                    | <b>Qualified</b>                       | <b>Non-Qualified</b> | <b>Qualified</b> | <b>Non-Qualified</b> |
| Service cost                       | \$ 4                                   | \$                   | \$ 9             | \$ 1                 |
| Interest cost                      | 34                                     | 7                    | 26               | 5                    |
| Expected return on plan assets     | (27)                                   |                      | (18)             |                      |
| Amortization of prior service cost |  |                      |                  | 1                    |
| Recognized curtailment loss        |  |                      | 3                | 5                    |
| Amortization of net loss           | 8                                      |                      | 10               |                      |

|                           |       |      |       |       |
|---------------------------|-------|------|-------|-------|
| Net periodic pension cost | \$ 19 | \$ 7 | \$ 30 | \$ 12 |
|                           | 16    |      |       |       |

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

Note J continued:

**Assumptions**

Major assumptions used in accounting for the Company's defined-benefit pension plans were as follows:

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2009</b>         | <b>2008</b> |
| Discount rate for obligations               | 5.8%                | 6.1%        |
| Expected return on plan assets              | 8.0%                | 8.0%        |
| Discount rate for net periodic pension cost | 6.1%                | 6.25%       |

The discount rate for obligations was based upon the expected duration of each defined-benefit pension plan's liabilities matched to the widely used Citigroup Pension Discount Curve and Liability Index for December 31, 2009. Such rates for the Company's defined benefit pension plans ranged from 2.60 percent to 6.25 percent, with the most significant portion of the liabilities having a discount rate for obligations of 5.60 percent or higher at December 31, 2009. The decline in the weighted average discount rate to 5.8 percent in 2009 from 6.1 percent in 2008 was principally the result of the variation in long-term rates which were highly volatile at the end of 2008 compared to 2009, for the Citigroup Pension Discount Curve, and the freezing of all future benefit accruals under substantially all of the Company's domestic qualified and non-qualified defined-benefit plans, which shortened the period of future pension payments. The decrease in the discount rate increased our projected benefit obligation by approximately \$29 million.

The Company determined the expected long-term rate of return on plan assets of 8 percent based upon an analysis of expected and historical rates of return of various asset classes utilizing the current and long-term target asset allocation of the plan assets. The projected asset return at December 31, 2009 also considered near term returns, including current market conditions and also that pension assets are long-term in nature. The actual annual rate of return on the Company's pension plan assets was 3.3 percent and .5 percent for the 10-year periods ended December 31, 2009 and 2008, respectively. Although these rates of return are less than the Company's current expected long-term rate of return on plan assets, the Company notes that these 10-year periods include two significant declines in the equity markets. Accordingly, the Company believes an 8 percent expected long-term rate of return is reasonable.

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**MASCO CORPORATION**

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

Note J concluded:

The investment objectives seek to minimize the volatility of the value of the Company's plan assets relative to pension liabilities and to ensure plan assets are sufficient to pay plan benefits. The Company, based upon discussions with its pension investment advisor, reduced its equity allocation to 70 percent from 80 percent; increased its fixed-income allocation to 25 percent from 10 percent and allocated 5 percent to alternative investments. The revised asset allocation of the investment portfolio was developed with the objective of achieving the Company's expected rate of return and reducing volatility of asset returns, and considered the freezing of future benefits. The equity portfolios are invested in individual securities or funds that are expected to mirror broad market returns for equity securities. The fixed-income portfolio is invested in corporate bonds, bond index funds or U.S. Treasury securities. The increased allocation to fixed-income securities partially matches the bond-like and long-term nature of the pension liabilities. In 2010, the pension investment advisor recommended that, longer term, the Company should achieve the following targeted asset portfolio: 45 percent equities, 25 percent fixed-income, 15 percent global assets (combination of equity and fixed-income) and 15 percent alternative investments (such as private equity, commodities and hedge funds). The Company expects to achieve this allocation by December 31, 2011. This targeted portfolio is expected to yield a long-term rate of return of 8 percent.

The fair value of the Company's plan assets is subject to risk including significant concentrations of risk in the Company's plan assets related to equity, interest rate and operating risk. In order to ensure plan assets are sufficient to pay benefits, a portion of plan assets is allocated to equity investments that are expected over time, to earn higher returns with more volatility than fixed-income investments which more closely match pension liabilities. Within equity, risk is mitigated by targeting a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process.

In order to minimize asset volatility relative to the liabilities, a portion of plan assets are allocated to fixed-income investments that are exposed to interest rate risk. Rate increases generally will result in a decline in fixed-income assets, while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities.

The Company has targeted alternative investments such as hedge funds, private equity funds and commodities that are expected to comprise 15 percent of the pension assets. It is expected that the alternative investments would have a higher rate of return than the targeted overall long-term return of 8 percent. However, these investments are subject to greater volatility, due to their nature, than a portfolio of equities and fixed-income investments, and would be less liquid than financial instruments that trade on public markets.

Potential events or circumstances that could have a negative effect on estimated fair value include the risks of inadequate diversification and other operating risks. To mitigate these risks, investments are diversified across and within asset classes in support of investment objectives. Policies and practices to address operating risks include ongoing manager oversight, plan and asset class investment guidelines and instructions that are communicated to managers, and periodic compliance and audit reviews to ensure adherence to these policies. In addition, the Company periodically seeks the input of its independent advisor to ensure the investment policy is appropriate.

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

## K. Accumulated Other Comprehensive Income

K. The components of accumulated other comprehensive income attributable to Masco Corporation were as follows, in millions:

|   | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|-------------------------------|------------------------------|
| Cumulative translation adjustments                | \$ 518                        | \$ 546                       |
| Unrealized gain on marketable securities, net     | 21                            | 25                           |
| Unrecognized prior service cost and net loss, net | (200)                         | (205)                        |
| Accumulated other comprehensive income            | \$ 339                        | \$ 366                       |

The components of accumulated other comprehensive attributable to noncontrolling interest were as follows, in millions:

|   | <b>September 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|-------------------------------|------------------------------|
| Cumulative translation adjustments                | \$ 22                         | \$ 31                        |
| Unrealized gain on marketable securities, net     |                               |                              |
| Unrecognized prior service cost and net loss, net |                               |                              |
| Accumulated other comprehensive income            | \$ 22                         | \$ 31                        |



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

Note K concluded:

The Company's total comprehensive income was as follows, in millions:

|   | <b>Three Months Ended<br/>September 30, 2010</b>     |                                    | <b>Three Months Ended<br/>September 30, 2009</b>     |                                    |
|---|--|------------------------------------|--|------------------------------------|
|   | <b>Attributable<br/>to<br/>Masco<br/>Corporation</b> | <b>Noncontrolling<br/>Interest</b> | <b>Attributable<br/>to<br/>Masco<br/>Corporation</b> | <b>Noncontrolling<br/>Interest</b> |
| Net (loss) income                             | \$ (5)   | \$ 12                              | \$ 28  | \$ 12                              |
| Other comprehensive income:                   |  |                                    |  |                                    |
| Cumulative translation adjustments, net       | 72   | 22                                 | 18   | 6                                  |
| Unrealized gain on marketable securities, net | 4  |                                    | 16   |                                    |
| Prior service cost and net loss, net          | 1  |                                    |  |                                    |
| Total comprehensive income                    | \$ 72  | \$ 34                              | \$ 62  | \$ 18                              |

|  | <b>Nine Months Ended<br/>September 30, 2010</b>      |                                    | <b>Nine Months Ended<br/>September 30, 2009</b>      |                                    |
|--|--|------------------------------------|--|------------------------------------|
|  | <b>Attributable<br/>to<br/>Masco<br/>Corporation</b> | <b>Noncontrolling<br/>Interest</b> | <b>Attributable<br/>to<br/>Masco<br/>Corporation</b> | <b>Noncontrolling<br/>Interest</b> |
| Net (loss) income                                    | \$ (9)   | \$ 32                              | \$ 2   | \$ 27                              |
| Other comprehensive income:                          |  |                                    |  |                                    |
| Cumulative translation adjustments, net              | (28)   | (9)                                | 30   | 10                                 |
| Unrealized (loss) gain on marketable securities, net | (4)  |                                    | 21   |                                    |
| Prior service cost and net loss, net                 | 5  |                                    | 62   |                                    |
| Total comprehensive (loss) income                    | \$ (36)  | \$ 23                              | \$ 115   | \$ 37                              |

The unrealized gain (loss) on marketable securities, net, is net of income tax expense (benefit) of \$3 million and \$(1) million, respectively, for the three months and nine months ended September 30, 2010. The unrealized gain on marketable securities, net, is net of income tax of \$8 million and \$11 million, respectively, for the three months and nine months ended September 30, 2009. The prior service cost and net loss, net, is net of income tax of \$1 million and \$3 million for the three months and nine months ended September 30, 2010, respectively. The prior service cost and net loss, net, is net of income tax of \$36 million for the nine months ended September 30, 2009.

On the basis of amounts paid (declared), cash dividends per common share were \$.075 (\$.075) and \$.225 (\$.225) for the three months and nine months ended September 30, 2010, respectively. On the basis of amounts paid (declared), cash dividends per common share were \$.075 (\$.075) and \$.385 (\$.225) for the three months and nine months ended September 30, 2009, respectively.

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

## L. Segment Information

L. Information about the Company by segment and geographic area was as follows, in millions:

|   | Three Months Ended September 30, |          |                            |         | Nine Months Ended September 30, |          |                            |         |
|---|----------------------------------|----------|----------------------------|---------|---------------------------------|----------|----------------------------|---------|
|   | 2010                             | 2009     | 2010                       | 2009    | 2010                            | 2009     | 2010                       | 2009    |
|   | Net Sales(A)                     |          | Operating Profit<br>(Loss) |         | Net Sales(A)                    |          | Operating Profit<br>(Loss) |         |
| The Company's operations by segment were: |                                  |          |                            |         |                                 |          |                            |         |
| Cabinets and Related Products             | \$ 357                           | \$ 434   | \$ (61)                    | \$ (16) | \$ 1,160                        | \$ 1,248 | \$ (113)                   | \$ (56) |
| Plumbing Products                         | 686                              | 678      | 97                         | 93      | 2,031                           | 1,893    | 267                        | 202     |
| Installation and Other Services           | 292                              | 332      | (22)                       | (34)    | 874                             | 961      | (87)                       | (104)   |
| Decorative Architectural Products         | 463                              | 474      | 104                        | 122     | 1,357                           | 1,365    | 300                        | 313     |
| Other Specialty Products                  | 159                              | 166      | 11                         | 16      | 435                             | 427      | 16                         | 16      |
| Total                                     | \$ 1,957                         | \$ 2,084 | \$ 129                     | \$ 181  | \$ 5,857                        | \$ 5,894 | \$ 383                     | \$ 371  |

The Company's operations by geographic area were:

|                                   |          |          |       |        |          |          |        |        |
|-----------------------------------|----------|----------|-------|--------|----------|----------|--------|--------|
| North America                     | \$ 1,528 | \$ 1,630 | \$ 79 | \$ 123 | \$ 4,617 | \$ 4,694 | \$ 257 | \$ 261 |
| International, principally Europe | 429      | 454      | 50    | 58     | 1,240    | 1,200    | 126    | 110    |
| Total                             | \$ 1,957 | \$ 2,084 | 129   | 181    | \$ 5,857 | \$ 5,894 | 383    | 371    |

|   |  |  |      |      |  |  |      |      |
|---|--|--|------|------|--|--|------|------|
| General corporate expense, net                  |  |  | (27) | (36) |  |  | (84) | (96) |
| Charge for litigation settlement (B)            |  |  |      | (7)  |  |  |      | (7)  |
| Accelerated stock compensation expense (C)      |  |  |      |      |  |  |      | (6)  |
| (Loss) on corporate fixed assets, net           |  |  |      |      |  |  |      | (2)  |
| Charge for defined-benefit plan curtailment (D) |  |  |      |      |  |  |      | (8)  |

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Operating profit   | 102   | 138   | 299   | 252   |
| Other income<br>(expense), net                                 | (64)  | (49)  | (223) | (157) |
| Income from<br>continuing<br>operations before<br>income taxes | \$ 38 | \$ 89 | \$ 76 | \$ 95 |

- (A) Inter-segment sales were not material.
- (B) The charge for litigation settlement in 2009 relates to a business unit in the Cabinets and Related Products segment.
- (C) See Note I to the condensed consolidated financial statements.
- (D) In March 2009, the Company recognized a curtailment loss related to the plan to freeze all future benefit accruals beginning January 1, 2010 under substantially all of the Company's domestic qualified and non-qualified defined-benefit pension plans.



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

## M. Other Income (Expense), Net

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

|  | Three Months Ended |      | Nine Months Ended |       |
|--|--------------------|------|-------------------|-------|
|  | September 30,      |      | September 30,     |       |
|  | 2010               | 2009 | 2010              | 2009  |
| Income from cash and cash investments    | \$ 2               | \$ 2 | \$ 4              | \$ 6  |
| Other interest income                    |                    | 1    | 1                 | 1     |
| Loss from financial investments (Note E) | (3)                |      | (2)               |       |
| Other items, net                         |                    | 4    | (5)               | 15    |
| Total                                    | \$ (1)             | \$ 7 | \$ (2)            | \$ 22 |

Other items, net, included \$4 million and \$(2) million of currency gains (losses) for the three months and nine months ended September 30, 2010, respectively. Other items, net, included \$5 million and \$14 million of currency gains for the three months and nine months ended September 30, 2009, respectively.

## N. Earnings Per Common Share

N. 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 |       | Nine Months Ended |       |
|--|--------------------|-------|-------------------|-------|
|  | September 30,      |       | September 30,     |       |
|  | 2010               | 2009  | 2010              | 2009  |
| Numerator (basic and diluted):   |                    |       |                   |       |
| (Loss) income from continuing operations                                     | \$ (5)             | \$ 51 | \$ (9)            | \$ 33 |
| Allocation to unvested restricted stock awards                               | (1)                | (1)   | (2)               | (2)   |
| (Loss) income from continuing operations attributable to common shareholders | (6)                | 50    | (11)              | 31    |
| Loss from discontinued operations, net                                       |                    | (23)  |                   | (31)  |
| Net (loss) income available to common shareholders                           | \$ (6)             | \$ 27 | \$ (11)           | \$    |
| Denominator:   |                    |       |                   |       |
| Basic common shares (based upon weighted average)                            | 349                | 350   | 349               | 351   |
| Add:   |                    |       |                   |       |
| Contingent common shares   |                    |       |                   |       |
| Stock option dilution  |                    | 1     |                   |       |
| Diluted common shares  | 349                | 351   | 349               | 351   |

For the three months and nine months ended September 30, 2010 and the nine months ended September 30, 2009, the Company allocated dividends to the unvested restricted stock awards (participating securities). For the three months ended September 30, 2009, the Company allocated dividends and income to the unvested restricted stock awards (participating securities).

At September 30, 2010 and 2009, the Company did not include any common shares related to the Zero Coupon Convertible Senior Notes ( Notes ) in the calculation of diluted earnings per common share, as the price of the Company s common stock at September 30, 2010 and 2009 did not exceed the equivalent accreted value of the Notes.

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

Note N concluded:

Additionally, 37 million common shares for both the three months and nine months ended September 30, 2010 and 35 million and 36 million common shares for the three months and nine months ended September 30, 2009, respectively, related to stock options were excluded from the computation of diluted earnings per common share due to their antidilutive effect.

In the first nine months of 2010, the Company granted three million shares of long-term stock awards. In the first nine months of 2010, the Company also repurchased and retired approximately three million shares of Company common stock, for cash aggregating \$45 million to offset the dilutive impact of these long-term stock awards. At September 30, 2010, the Company had 27 million shares of its common stock remaining under the July 2007 Board of Directors repurchase authorization.

**O. Other Commitments and Contingencies**

- O. The Company is subject to lawsuits and pending or asserted claims with respect to matters generally arising in the ordinary course of business.

As previously disclosed, a lawsuit has been brought against the Company and a number of its insulation installation companies in the federal court in Atlanta, Georgia alleging that certain practices violate provisions of the federal antitrust laws. In February 2009, the federal court in Atlanta certified a class of 377 insulation contractors. Two additional lawsuits, seeking class action status and alleging anticompetitive conduct, were filed against the Company and a number of its insulation suppliers. One of these lawsuits has been dismissed with prejudice and, with respect to the second lawsuit, which was originally filed in northern California and was subsequently transferred to Atlanta, Georgia, the Court has recently administratively stayed the case. The Company is vigorously defending the pending cases. Based upon the advice of its outside counsel, the Company believes that the conduct of the Company and its insulation installation companies, which has been the subject of the above-described lawsuits, has not violated any antitrust laws. The Company is unable at this time to reliably estimate any potential liability which might occur from an adverse judgment. There cannot be any assurance that the Company will ultimately prevail in the remaining lawsuits, or, if unsuccessful, that the ultimate liability would not be material and would not have a material adverse effect on its businesses or the methods used by its insulation installation companies in doing business.

**P. Income Taxes**

- P. The increased tax rate for the first nine months of 2010 includes the impact of certain plant closure costs and other losses not providing tax benefits in certain jurisdictions combined with a decrease in 2010 pre-tax income.

During the first nine months of 2010, the liability on uncertain tax positions including interest and penalties, net of U.S. Federal income tax benefit, increased by \$8 million primarily due to changes in the tax environment related to certain activities performed in various jurisdictions that caused a re-measurement of this liability. As a result of tax audit closings, settlements and expiration of applicable statutes of limitations in various jurisdictions within the next 12 months, the Company anticipates that it is reasonably possible that the liability on uncertain tax positions could be reduced by approximately \$11 million.

Due to the difficulty in estimating the annual effective tax rate in 2009, a discrete calculation was used to report tax expense rather than an estimated annual effective tax rate.

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

Q. Subsequent Events

- Q. As announced in February 2010, the Company is combining its Builder Cabinet Group and Retail Cabinet Group to form Masco Cabinetry. In April 2010, Masco Cabinetry decided to discontinue the manufacture of ready-to-assemble and other non-core in-stock assembled cabinet product lines as they are not consistent with Masco Cabinetry's strategy of growth through brand building and innovation. These product lines had aggregate annual sales of approximately \$200 million in 2009. The Company anticipates it will close two manufacturing facilities associated with these products in the first half of 2011. The Company expects to incur approximately \$119 million (principally recognized ratably over 15 months beginning April 2010) of pre-tax charges related to the anticipated plant closures including approximately \$99 million related to non-cash charges principally associated with property, plant and equipment and approximately \$20 million of other cash charges. At September 30, 2010, the Company had incurred \$33 million related to accelerated depreciation costs and \$15 million related to inventory reserves.



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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
THIRD QUARTER 2010 AND THE FIRST NINE MONTHS 2010 VERSUS  
THIRD QUARTER 2009 AND THE FIRST NINE MONTHS 2009  
SALES AND OPERATIONS**

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

|                                   | <b>Three Months<br/>Ended</b>              |             | <b>Percent<br/>(Decrease)<br/>Increase<br/>2010 vs. 2009</b> |
|-----------------------------------|--|-------------|--|
|                                   | <b>September 30,<br/>2010</b>              | <b>2009</b> |  |
| <b>Net Sales:</b>                 |  |             |  |
| Cabinets and Related Products     | \$ 357                                     | \$ 434      | (18%)  |
| Plumbing Products                 | 686  | 678         | 1%   |
| Installation and Other Services   | 292  | 332         | (12%)  |
| Decorative Architectural Products | 463  | 474         | (2%)   |
| Other Specialty Products          | 159  | 166         | (4%)   |
| Total                             | \$ 1,957                                   | \$ 2,084    | (6%)   |
|                                   |  |             |  |
| North America                     | \$ 1,528                                   | \$ 1,630    | (6%)   |
| International, principally Europe | 429  | 454         | (6%)   |
| Total                             | \$ 1,957                                   | \$ 2,084    | (6%)   |
|                                   |  |             |  |
|                                   | <b>Nine Months Ended<br/>September 30,</b> |             |  |
|                                   | <b>2010</b>                                | <b>2009</b> |  |
| <b>Net Sales:</b>                 |  |             |  |
| Cabinets and Related Products     | \$ 1,160                                   | \$ 1,248    | (7%)   |
| Plumbing Products                 | 2,031                                      | 1,893       | 7%   |
| Installation and Other Services   | 874  | 961         | (9%)   |
| Decorative Architectural Products | 1,357                                      | 1,365       | (1%)   |
| Other Specialty Products          | 435  | 427         | 2%   |
| Total                             | \$ 5,857                                   | \$ 5,894    | (1%)   |
|                                   |  |             |  |
| North America                     | \$ 4,617                                   | \$ 4,694    | (2%)   |
| International, principally Europe | 1,240                                      | 1,200       | 3%   |
| Total                             | \$ 5,857                                   | \$ 5,894    | (1%)   |

|   | Three Months Ended |         | Nine Months Ended |         |
|---|--------------------|---------|-------------------|---------|
|   | September 30,      |         | September 30,     |         |
|   | 2010               | 2009    | 2010              | 2009    |
| <b>Operating Profit (Loss) Margins: (A)</b>       |                    |         |                   |         |
| Cabinets and Related Products                     | (17.1%)            | (3.7%)  | (9.7%)            | (4.5%)  |
| Plumbing Products                                 | 14.1%              | 13.7%   | 13.1%             | 10.7%   |
| Installation and Other Services                   | (7.5%)             | (10.2%) | (10.0%)           | (10.8%) |
| Decorative Architectural Products                 | 22.5%              | 25.7%   | 22.1%             | 22.9%   |
| Other Specialty Products                          | 6.9%               | 9.6%    | 3.7%              | 3.7%    |
| North America                                     | 5.2%               | 7.5%    | 5.6%              | 5.6%    |
| International, principally Europe                 | 11.7%              | 12.8%   | 10.2%             | 9.2%    |
| Total   | 6.6%               | 8.7%    | 6.5%              | 6.3%    |
| <b>Total operating profit margin, as reported</b> | 5.2%               | 6.6%    | 5.1%              | 4.3%    |

(A) Before general corporate expense, net, the charge for litigation settlement, the accelerated stock compensation expense, the (loss) on corporate fixed assets, net and the charge for the defined-benefit plan curtailment; see Note L to the condensed consolidated financial statements.

**Table of Contents****MASCO CORPORATION****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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.

**NET SALES**

Net sales decreased for both the three-month and nine-month periods ended September 30, 2010 from the comparable periods of 2009. Excluding results from acquisitions and the negative effect of currency translation, net sales decreased four percent and were flat, respectively, for the three-month and nine-month periods ended September 30, 2010. The following table reconciles reported net sales to net sales, excluding acquisitions and the effect of currency translation, in millions:

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Net sales, as reported   | \$ 1,957                                    | \$ 2,084    | \$ 5,857                                   | \$ 5,894    |
| Acquisitions (none)  |   |             |  |             |
| Net sales, excluding acquisitions  | 1,957                                       | 2,084       | 5,857                                      | 5,894       |
| Currency translation   | 39  |             | 18   |             |
| Net sales, excluding acquisitions and the effect of currency translation | \$ 1,996                                    | \$ 2,084    | \$ 5,875                                   | \$ 5,894    |

North American net sales were negatively impacted by lower sales volume of installation and other services, cabinets, plumbing products, paints and stains, builders' hardware and windows, which, in the aggregate, decreased sales by eight percent for the three-month period ended September 30, 2010 from the comparable period of 2009. Such declines were partially offset by a more favorable product mix of plumbing products and paints and stains, which increased sales by two percent for the three-month period ended September 30, 2010 from the comparable period of 2009. For the nine-month period ended September 30, 2010, North American net sales were negatively impacted by lower sales volume of installation and other services, cabinets, plumbing products and builders' hardware, which reduced net sales by three percent from the comparable period of 2009. Such declines were partially offset by increased sales volume of paints and stains and a more favorable product mix of plumbing products and paints and stains.

In local currencies, net sales from International operations increased four percent and seven percent, respectively, for the three-month and nine-month periods ended September 30, 2010, primarily due to increased sales volume and selling prices of International plumbing products and windows, offset by lower sales volume related to International cabinets. A stronger U.S. dollar decreased International net sales by nine percent and three percent, respectively, in the three-month and nine-month periods ended September 30, 2010 compared to the same periods of 2009.

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Net sales of Cabinets and Related Products decreased in both the three-month and nine-month periods ended September 30, 2010, primarily due to lower retail sales volumes of both North American and International cabinets compared to the same periods of 2009, as well as the planned exit of ready-to-assemble and other non-core in-stock and frameless cabinet product lines.

Net sales of Plumbing Products increased, due to a more favorable product mix to North American retailers and wholesalers, which increased sales by three percent and two percent, respectively, in the three-month and nine-month periods ended September 30, 2010 from the comparable periods of 2009. A stronger U.S. dollar decreased sales in this segment by four percent in the three-month period ended September 30, 2010 compared to the same period of 2009. In local currencies, net sales of International operations increased sales in this segment by six percent in both the three-month and nine-month periods ended September 30, 2010 from the comparable periods of 2009. Such increases in International sales were due to increased sales volume and increased selling prices. Such increases were offset by declines in sales volume to North American retailers and wholesalers, which reduced sales in this segment by four percent for the three-month period ended September 30, 2010 from the comparable periods of 2009.

Net sales of Installation and Other Services decreased for both the three-month and nine-month periods ended September 30, 2010, primarily due to lower sales volume due to modest market share declines in the new home construction market. In addition, revenue was negatively impacted by selling price pressures and a less favorable product mix.

Net sales of Decorative Architectural Products decreased for both the three-month and nine-month periods ended September 30, 2010, due to lower sales volume of paints and stains and builders' hardware and lower selling prices of paints and stains. Such declines were partially offset by a more favorable product mix of paints and stains, related to new product introductions.

Net sales of Other Specialty Products decreased for the three-month period ended September 30, 2010, primarily due to lower sales volume and a less favorable product mix of windows, such declines were partially offset by increased sales volume of staple gun tackers and other fastening tools. Net sales of Other Specialty Products increased for the nine-month period ended September 30, 2010, primarily due to increased sales volume of windows and staple gun tackers and other fastening tools, which increased sales in this segment by two percent compared to the same period of 2009. A stronger U.S. dollar decreased sales by one percent in the three-month period ended September 30, 2010 compared to the same period of 2009.

**OPERATING MARGINS**

Our gross profit margins were 25.2 percent and 26.2 percent for the three-month and nine-month periods ended September 30, 2010 compared with 27.2 percent and 25.8 percent for the comparable periods of 2009. Selling, general and administrative expenses were relatively flat, as a percentage of sales, for both the three-month and nine-month periods ended September 30, 2010 compared with 2009. Results for the three-month period ended September 30, 2010 reflect lower sales volume and a less favorable relationship between selling prices and commodity costs, as well as increased business rationalization expenses. Results for the nine-month period ended September 30, 2010 reflect the benefits associated with business rationalizations and other cost savings initiatives, which offset a less favorable relationship between selling prices and commodity costs and increased business rationalization expenses.

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We have been focused on the strategic rationalization of our businesses, including business consolidations, plant closures, headcount reductions, system implementations and other initiatives. Operating profit for the three-month and nine-month periods ended September 30, 2010 includes \$39 million and \$104 million, respectively, of costs and charges related to our business rationalizations and other initiatives. For the three-month and nine-month periods ended September 30, 2009, we incurred costs and charges of \$21 million and \$67 million, respectively, related to these initiatives.

As announced in February 2010, we are combining our Builder Cabinet Group and Retail Cabinet Group to form Masco Cabinetry. In April 2010, Masco Cabinetry decided to discontinue the manufacture of ready-to-assemble and other non-core in-stock assembled cabinet product lines as they are not consistent with Masco Cabinetry's strategy of growth through brand building and innovation. These product lines had aggregate annual sales of approximately \$200 million in 2009. We anticipate that we will close two manufacturing facilities associated with these products in the first half of 2011. We expect to incur approximately \$119 million (principally recognized ratably over 15 months beginning April 2010) of pre-tax charges related to the anticipated plant closures including approximately \$99 million related to non-cash charges principally associated with property, plant and equipment and approximately \$20 million of other cash charges. These charges, including the previously announced integration charges of approximately \$35 million, will result in aggregate pre-tax charges of approximately \$154 million related to the integration of the Builder and Retail Cabinet groups into Masco Cabinetry.

Including the actions outlined above, we anticipate that full-year 2010 rationalization charges, for the entire Company, will aggregate approximately \$130 million. We continue to evaluate our businesses and the impact of market conditions on our businesses, which may result in additional rationalization charges including severance, plant closure costs and asset impairments.

The higher operating loss in the Cabinets and Related Products segment for both the three-month and nine-month periods ended September 30, 2010 reflects lower sales volume and the related under-absorption of fixed costs, as well as increased business rationalization expenses and a less favorable relationship between selling prices and commodity costs. Such decreases more than offset the benefits associated with business rationalizations and other cost savings initiatives.

Operating profit margins in the Plumbing Products segment for the three-month period ended September 30, 2010 were negatively impacted by a less favorable relationship between selling prices and commodity costs partially offset by a more favorable product mix. Operating profit margins in this segment for the nine-month period ended September 30, 2010 were positively affected by increased sales volume and a more favorable relationship between selling price and commodity costs which increased operating profit margins in this segment by approximately two percentage points. Operating profit margins in both periods of 2010 were also positively impacted by the benefits associated with business rationalizations and other cost savings initiatives and lower business rationalization expenses.

The decrease in the operating loss in the Installation and Other Services segment for the three-month period ended September 30, 2010 is primarily due to the benefits associated with business rationalizations and other cost savings initiatives, lower system implementation costs and a more favorable relationship between selling prices and commodity costs, which offset the negative impact of lower sales volume. The decrease in the operating loss in this segment for the nine-month period ended September 30, 2010 is primarily due to the benefits associated with business rationalizations and other cost savings initiatives and lower system implementation costs, which offset the negative impact of lower sales volume and a less favorable relationship between selling prices and commodity costs.

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The operating profit margins for the Decorative Architectural Products segment for the three-month and nine-month periods ended September 30, 2010 reflect lower sales volume of paints and stains and builders' hardware, as well as a less favorable relationship between selling prices and commodity costs related to paints and stains. Such declines more than offset the benefit of a more favorable product mix of paints and stains, related to new product introductions.

The lower operating profit margin in the Other Specialty Products segment for the three-month period ended September 30, 2010 reflects the negative effect of lower sales volume and a less favorable relationship between selling prices and commodity costs. Such declines offset the benefits associated with business rationalizations and other cost savings initiatives.

**OTHER INCOME (EXPENSE), NET**

Interest expense for the three-month and nine-month periods ended September 30, 2010 increased \$7 million and \$19 million, respectively, from the comparable periods of 2009, primarily due to the issuance of \$500 million of 7.125% notes in the first quarter of 2010, as well as the premium paid for the repurchase of \$59 million of 5.875% Notes in the second quarter of 2010.

Other items, net, for the three-month and nine-month periods ended September 30, 2010 included \$4 million and \$(2) million, respectively, of currency transaction gains (losses).

Other items, net, for both the three-month and nine-month periods ended September 30, 2010 included a \$3 million loss on the sale of Asahi Tec common stock.

Other items, net, for the three-month and nine-month periods ended September 30, 2009 included \$5 million and \$14 million, respectively, of currency transaction gains.

For the nine-month period ended September 30, 2010, we recognized non-cash, pre-tax impairment charges of \$33 million related to financial investments (\$28 million related to Asahi Tec preferred stock and \$5 million related to private equity funds and other private investments).

For the nine-month period ended September 30, 2009, we recognized non-cash, pre-tax impairment charges of \$10 million related to financial investments in private equity funds.

**(LOSS) INCOME AND EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS**

(Loss) income from continuing operations (attributable to Masco Corporation) for the three-month and nine-month periods ended September 30, 2010 was \$(5) million and \$(9) million, respectively, compared with \$51 million and \$33 million, respectively, for the comparable periods of 2009. Diluted earnings (loss) per common share from continuing operations (attributable to Masco Corporation) for the three-month and nine-month periods ended September 30, 2010 were \$(.02) per common share and \$(.03) per common share, respectively, compared with \$.14 per common share and \$.09 per common share, respectively, for the comparable periods of 2009.

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**MASCO CORPORATION**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The effective tax rate was 82 and 70 percent for the three-months and nine-months ended September 30, 2010, respectively. The tax rates are higher than our normalized tax rate of 36 percent primarily due to certain plant closure costs and other losses not providing tax benefits in certain jurisdictions combined with a decrease in 2010 pre-tax income.

The effective tax rate was 29 and 37 percent for the three-months and nine-months ended September 30, 2009, respectively. Due to the difficulty in estimating the annual effective tax rate in 2009, a discrete calculation was used to report tax expense rather than an estimated annual effective tax rate.

**OTHER FINANCIAL INFORMATION**

Our current ratio was 2.4 to 1 and 1.9 to 1, respectively, at September 30, 2010 and December 31, 2009. The improvement in the current ratio is due to the payment of \$300 million variable rate Notes due March 2010.

For the nine months ended September 30, 2010, cash of \$236 million was provided by operating activities.

Net cash used by financing activities was \$16 million, and included \$359 million for retirement of Notes (retired \$300 million of floating rate notes on March 12, 2010, the scheduled maturity date and, during the second quarter of 2010, we repurchased \$59 million of 5.875% Notes due July 2012, in open-market transactions) partially offset by \$494 million from the issuance of Notes, net of issuance costs. Financing activities also include \$81 million for the payment of cash dividends, \$45 million for the acquisition of Company common stock in open-market transactions to offset the dilutive impact of long-term stock awards granted in 2010, \$15 million for dividends paid to noncontrolling interests and \$9 million of costs related to the New Credit Agreement. Net cash used for investing activities was \$87 million and included \$88 million for capital expenditures.

Our cash and cash investments were \$1.5 billion and \$1.4 billion at September 30, 2010 and December 31, 2009, respectively. Our cash and cash investments consist of overnight interest bearing money market demand and time deposit accounts, money market mutual funds and government securities.

On March 10, 2010, we issued \$500 million of 7.125% notes due March 15, 2020.

On June 21, 2010, we entered into a Credit Agreement (the "New Credit Agreement") dated as of June 21, 2010, with a bank group, with an aggregate commitment of \$1.25 billion with a maturity date of January 10, 2014. Our previous 5-Year Revolving Credit Agreement dated as of November 5, 2004, as amended, with an aggregate commitment of \$1.25 billion, was terminated. Note H to the condensed consolidated financial statements provides more information regarding the New Credit Agreement.

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We were in compliance with all covenants and had no borrowings under the New Credit Agreement at September 30, 2010.

We are subject to lawsuits and claims pending or asserted with respect to matters generally arising in the ordinary course of business. Note O to the condensed consolidated financial statements discusses certain specific claims pending against us.

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**

Although we continue to be concerned about foreclosure activity and access to financing, we believe that housing starts will improve in 2010 from 554,000 units in 2009 and continue to believe that total starts will be in a range of 575,000 to 625,000 units. In addition, we anticipate that expenditures on repair and remodel activity will be challenged in the near-term and that big-ticket items will continue to be deferred until general economic conditions, unemployment, consumer confidence, credit availability and home prices improve.

We are confident that the long-term fundamentals for the new home construction and home improvement markets continue to be positive. However, it appears that the recovery in certain of our markets will be slower than previously anticipated. 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.

**FORWARD-LOOKING STATEMENTS**

Certain sections of this Quarterly Report contain statements reflecting the Company's views about its future performance which may constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These views involve risks and uncertainties that are difficult to predict and the Company's results may differ materially from the results discussed in such forward-looking statements. For further information, readers should refer to the Company's most recent Annual Report on Form 10-K ( Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations sections) and to any subsequent Quarterly Reports on Form 10-Q, all of which are on file with the Securities and Exchange Commission. The Company undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events or otherwise.



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**MASCO CORPORATION**

**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 September 30, 2010, the Company's disclosure controls and procedures were effective.

b. Changes in Internal Control Over Financial Reporting.

During the third quarter of 2010, the Company continued a phased deployment of a new Enterprise Resource Planning ( ERP ) system at Masco Contractor Services and substantially completed the ERP implementation at Masco Builder Cabinet Group, two of the Company's larger business units. These new systems represent process improvement initiatives and are not in response to any identified deficiency or weakness in the Company's internal control over financial reporting.

In February 2010, the Company announced plans to combine Masco Builder Cabinet Group and Masco Retail Cabinet Group to form Masco Cabinetry. During the third quarter of 2010, the Company began the process of integrating those business units in order to realize planned efficiency gains.

The system implementations and business integration are designed, in part, to enhance the overall system of internal control over financial reporting through further automation and integration of various business processes. However, these business process initiatives are significant in scale and complexity and have resulted in modifications to certain internal controls during the third quarter.

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**MASCO CORPORATION  
PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Information regarding certain legal proceedings involving the Company is set forth in Note O to the Company's condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

**Item 1A. Risk Factors**

Information regarding risk factors of the Company is set forth in Item 1A, Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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**MASCO CORPORATION  
PART II. OTHER INFORMATION, continued**

**Item 6. Exhibits**

|     |   |
|-----|---|
| 10  | Non-Employee Directors Equity Program under Masco's 2005 Long Term Stock Incentive Plan (Amended October 2010)  |
| 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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**MASCO CORPORATION**  
**PART II. OTHER INFORMATION, concluded**  
**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. Sznewajs

Name:

John G. Sznewajs

Title: Vice President, Treasurer and  
Chief Financial Officer

October 28, 2010

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**MASCO CORPORATION  
EXHIBIT INDEX**

**Exhibit**

- Exhibit 10 Non-Employee Directors Equity Program under Masco's 2005 Long Term Stock Incentive Plan (Amended October 2010)
- 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