USG CORP
Form 10-Q
July 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2015
OR

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

For the transition period from to
Commission File Number 1-8864
USG CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-3329400
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
550 West Adams Street, Chicago, Illinois	60661-3676
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (312) 436-4000
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ 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 (as defined in Rule 12b-2 of the Exchange Act).
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ 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 o No þ
The number of shares of the registrant's common stock outstanding as of June 30, 2015 was 145,448,858.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
USG CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(millions, except per-share and share data)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Net sales	$970	$948	$1,879	$1,798
Cost of products sold	787	773	1,543	1,480
Gross profit	183	175	336	318
Selling and administrative expenses	79	77	156	154
Gain on disposal of shipping operations, net	(1)	—	(1)	—
Operating profit	105	98	181	164
Income from equity method investments	14	5	22	8
Interest expense	(40)	(45)	(83)	(92)
Interest income	—	—	1	1
Loss on extinguishment of debt	—	—	(19)	—
Gain on deconsolidation of subsidiaries and consolidated joint ventures	—	—	—	27
Other income, net	1	—	—	—
Income before income taxes	80	58	102	108
Income tax benefit (expense)	(1)	—	1	(5)
Income from continuing operations	79	58	103	103
Loss from discontinued operations, net of tax	—	(1)	—	(1)
Net income	79	57	$103	$102
Earnings (loss) per common share - basic:				
Income from continuing operations	$0.54	$0.40	$0.70	$0.74
Loss from discontinued operations	—	(0.01)	—	(0.01)
Net income	$0.54	$0.39	$0.70	$0.73
Earnings (loss) per common share - diluted:				
Income from continuing operations	$0.54	$0.39	$0.70	$0.72
Loss from discontinued operations	—	(0.01)	—	(0.01)
Net income	$0.54	$0.38	$0.70	$0.71
Average common shares	145,424,853	144,500,682	145,393,548	139,702,728
Average diluted common shares	146,990,178	147,024,196	147,167,248	146,920,294

See accompanying Notes to Consolidated Financial Statements.

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USG CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(millions)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income	$79	$57	$103	$102
Other comprehensive income (loss), net of tax:				
Derivatives qualifying as cash flow hedges:				
Gain/(loss) on derivatives qualifying as cash flow hedges, net of tax (benefit) of ($1), $0, $0, and $0, respectively	—	(3)	(1)	2
Less: Reclassification adjustment for gain (loss) on derivatives included in net income, net of tax of $0 in all periods	(3)	1	(5)	3
Net derivatives qualifying as cash flow hedges	3	(4)	4	(1)
Pension and postretirement benefits:				
Changes in pension and postretirement benefits, net of tax of $0, $1, $1 and $1, respectively	(8)	(12)	(2)	(9)
Less: Amortization of prior service credit (cost) included in net periodic pension cost, net of tax (benefit) of $0, ($1), ($1) and ($1), respectively	(2)	3	(3)	6
Net pension and postretirement benefits	(6)	(15)	1	(15)
Foreign currency translation:				
Changes in foreign currency translation, net of tax of $0 in all periods	(5)	15	(39)	11
Less: Translation gains realized upon the deconsolidation of foreign subsidiaries, net of tax of $0 in all periods	—	—	—	5
Net foreign currency translation	(5)	15	(39)	6
Other comprehensive loss, net of tax	$(8)	$(4)	$(34)	$(10)
Comprehensive income	$71	$53	$69	$92

See accompanying Notes to Consolidated Financial Statements.

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USG CORPORATION
CONSOLIDATED BALANCE SHEETS

(millions, except share and per share data)	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	$231	$ 228
Short-term marketable securities	61	96
Restricted cash	50	1
Receivables (net of reserves - $20 and $22)	468	404
Inventories	324	329
Income taxes receivable	3	3
Deferred income taxes	42	43
Other current assets	84	48
Total current assets	1,263	1,152
Long-term marketable securities	21	58
Property, plant and equipment (net of accumulated depreciation and depletion - $1,926 and $1,885)	1,826	1,908
Deferred income taxes	17	19
Equity method investments	681	735
Other assets	122	122
Total assets	$3,930	$ 3,994
Liabilities and Stockholders' Equity		
Accounts payable	$246	$ 290
Accrued expenses	205	220
Current portion of long-term debt	—	4
Deferred income taxes	1	—
Income taxes payable	1	1
Litigation settlement accrual	48	48
Total current liabilities	501	563
Long-term debt	2,188	2,205
Deferred income taxes	61	61
Pension and other postretirement benefits	451	491
Other liabilities	253	266
Total liabilities	3,454	3,586
Preferred stock – $1 par value, authorized 36,000,000 shares; outstanding - none	—	—
Common stock – $0.10 par value; authorized 200,000,000 shares; issued: 2015 - 145,570,000 shares; 2014 - 144,768,000 shares	14	14
Treasury stock at cost – 2015 - 121,000 shares; 2014 - 0 shares	(3)	—
Additional paid-in capital	3,017	3,014
Accumulated other comprehensive loss	(372)	(338)
Retained earnings (accumulated deficit)	(2,180)	(2,283)
Stockholders' equity of parent	476	407
Noncontrolling interest	—	1
Total stockholders' equity including noncontrolling interest	476	408
Total liabilities and stockholders' equity	$3,930	$ 3,994

See accompanying Notes to Consolidated Financial Statements.

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USG CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)	Six months ended June 30, 2015	2014
Operating Activities		
Net income	$103	$102
Less: Loss from discontinued operations, net of tax	—	(1)
Income from continuing operations	103	103
Adjustments to reconcile net income to net cash:		
Depreciation, depletion and amortization	72	77
Loss on extinguishment of debt	19	—
Share-based compensation expense	6	10
Deferred income taxes	1	4
Gain on asset dispositions	(7)	(12)
Income from equity method investments	(22)	(8)
Dividends received from equity method investments	18	—
Gain on deconsolidation of subsidiaries and consolidated joint ventures	—	(27)
(Increase) decrease in working capital, net of deconsolidation of subsidiaries and consolidated joint ventures:		
Receivables	(66)	(54)
Income taxes receivable	(1)	(1)
Inventories	6	(17)
Other current assets	1	(1)
Payables	(33)	(18)
Accrued expenses	(25)	(22)
Decrease in other assets	1	—
Decrease in pension and other postretirement benefits	(40)	—
Decrease in other liabilities	(4)	(7)
Other, net	5	(7)
Net cash provided by operating activities	$34	$20
Investing Activities		
Purchases of marketable securities	(32)	(97)
Sales or maturities of marketable securities	103	99
Capital expenditures	(48)	(58)
Net proceeds from asset dispositions	42	14
Investment in joint ventures, including $23 of cash of contributed subsidiaries in 2014	—	(557)
Insurance proceeds	2	2
Return (deposit) of restricted cash	(49)	4
Net cash provided by (used for) investing activities	$18	$(593)
Financing Activities		
Issuance of debt	350	3
Repayment of debt	(386)	(2)
Payment of debt issuance fees	(6)	—

Issuance of common stock	4	3
Repurchases of common stock to satisfy employee tax withholding obligations	(8)	(5)
Net cash used for financing activities	$(46)	$(1)
Effect of exchange rate changes on cash	(3)	—
Net cash used for operating activities - discontinued operations	—	(1)
Net increase (decrease) in cash and cash equivalents	$3	$(575)
Cash and cash equivalents at beginning of period	228	810
Cash and cash equivalents at end of period	$231	$235
Supplemental Cash Flow Disclosures:		
Interest paid, net of capitalized interest	$80	$86
Income taxes paid, net	1	8
Noncash Investing and Financing Activities:		
Amount in accounts payable for capital expenditures	6	6
Contribution of wholly-owned subsidiaries and joint venture investments as consideration for investment in USG Boral Building Products	—	121
Conversion of $75 million of 10% convertible senior notes due 2018, net of discount	—	(73)
Issuance of common stock upon conversion of debt	—	75
Accrued interest on debt conversion	—	(2)

See accompanying Notes to Consolidated Financial Statements.

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USG CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In the following Notes to Consolidated Financial Statements, “USG,” “we,” “our” and “us” refer to USG Corporation, a Delaware corporation, and its subsidiaries included in the consolidated financial statements, except as otherwise indicated or as the context otherwise requires.

1. Organization, Consolidation and Presentation of Financial Statements

PREPARATION OF FINANCIAL STATEMENTS

We prepared the accompanying unaudited consolidated financial statements of USG Corporation in accordance with applicable United States Securities and Exchange Commission, or SEC, guidelines pertaining to interim financial information. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ materially from those estimates. In the opinion of our management, the financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our financial results for the interim periods. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results of operations to be expected for the entire year.

Our investments with Boral Limited in the 50/50 joint ventures, USG Boral Building Products or UBBP, commenced on February 27, 2014, and as a result, four months of results of UBBP was recorded in our accompanying consolidated statement of operations for the six months ended June 30, 2014. See Note 2 for further description of our investment in UBBP.

Our segments are structured around our key products and business units: Gypsum, Ceilings, Distribution and UBBP. Our Gypsum reportable segment is an aggregation of the operating segments of the gypsum businesses in the United States, Canada, Mexico, and Latin America, our mining operation in Little Narrows, Nova Scotia, Canada, and our shipping company. Gypsum manufactures products throughout the United States, Canada, and Mexico. These products include USG Sheetrock® brand gypsum wallboard and related products including Sheetrock® brand joint compound, Durock® brand cement board, Levelrock® brand gypsum underlayment, Fiberock® brand gypsum fiber panels, and Securock® brand glass mat sheathing used for building exteriors and gypsum fiber and glass mat panels used as roof cover board.

Our Ceilings reportable segment is an aggregation of the operating segments of the ceilings businesses in the United States, Canada, Mexico, Latin America and, through February 27, 2014, the businesses in the Asia-Pacific region. Ceilings manufactures ceiling tile in the United States and ceiling grid in the United States, Canada and, through February 27, 2014, the Asia-Pacific region.

Distribution delivers gypsum wallboard, drywall metal, ceilings products, joint compound and other building products throughout the United States.

UBBP manufactures, distributes and sells certain building products, mines raw gypsum and sells natural and synthetic gypsum throughout Asia, Australasia and the Middle East.

These financial statements and notes are to be read in conjunction with the financial statements and notes included in USG’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which we filed with the SEC on February 12, 2015.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update, or ASU, 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which updates the disclosure requirements for investments that are measured at net asset value using the practical expedient. These investments are to be removed from the fair value hierarchy and shown as a reconciling item. The standard will be effective for us in the first quarter of 2016, with early adoption permitted. We do not expect that the adoption of ASU 2015-07 will have a significant impact to our consolidated financial statements or disclosures.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset. The standard will be effective for us in the first quarter of 2016, with early adoption permitted. Upon adoption, we would reclassify our deferred debt issuance costs from other assets to long term debt. If adopted as of June 30,

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2015, we would have recorded a reduction in both other assets and long-term debt of $15 million and would have provided additional disclosure.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires management to assess, at each annual and interim reporting period, the entity's ability to continue as a going concern within one year of date of the financial statements are issued and provide related disclosures. The new standard will be effective for us for the year ended December 31, 2016, with early adoption permitted. We do not expect that the adoption of ASU 2014-15 will have a significant impact to our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. There are two transition methods available under the new standard, either cumulative effect or retrospective. In July 2015, the FASB agreed to defer the mandatory effective date by one year. The standard will be effective for us in the first quarter of 2018, with early adoption permitted, but not before the original effective date. We will adopt the new standard using the modified retrospective approach, which requires the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. We do not expect that the adoption of ASU 2014-09 will have a significant impact to our consolidated financial statements or disclosures.

2. Equity Method Investments

Equity method investments as of June 30, 2015 and December 31, 2014, were as follows:

(dollars in millions)	June 30, 2015 Carrying Value	June 30, 2015 Ownership Percentage	December 31, 2014 Carrying Value	December 31, 2014 Ownership Percentage
USG Boral Building Products	$673	50%	$689	50%
Other equity method investments (a)	44	33% - 50%	46	33% - 50%
Total equity method investments	$717		$735	

(a) This amount includes our investment in Knauf-USG of $36 million which as of June 30, 2015 is classified as assets held for sale and is included in other current assets.

Investment in USG Boral Building Products ("UBBP")

On February 27, 2014, we formed the 50/50 joint ventures, USG Boral Building Products Pte. Limited, a company organized under the laws of Singapore, and USG Boral Building Products Pty Limited, a company organized under the laws of Australia, with Boral Limited ("Boral"). These joint ventures are herein referred to as USG Boral Building Products, or UBBP. UBBP manufactures, distributes and sells certain building products, mines raw gypsum and sells natural and synthetic gypsum throughout Asia, Australasia and the Middle East (the "Territory"). The products that UBBP manufactures and distributes include products for wall, ceiling, floor lining and exterior systems that utilize gypsum, wallboard, referred to as plasterboard in the territory, mineral fiber ceiling tiles, steel grid and studs and joint compound.

As consideration for our 50% ownership in UBBP, we (i) made a cash payment of $515 million to Boral, which includes a $500 million base price and $15 million of customary estimated working capital and net debt adjustments, (ii) contributed to UBBP our subsidiaries and joint venture investments in China, Singapore, India, Malaysia, New Zealand, Australia, the Middle East and Oman, see Note 14, and (iii) granted to UBBP licenses to use certain of our intellectual property rights in the Territory. We funded our cash payments with the net proceeds from our October 2013 issuance of $350 million of 5.875% senior notes and cash on hand.

In the event certain performance targets are satisfied by UBBP, we will be obligated to pay Boral scheduled earnout payments in an aggregate amount up to $75 million, comprised first of $25 million based on performance during the first three years after closing and then up to $50 million based on performance during the first five years after closing. We recorded a liability representing the present value of the first earnout payment. As of June 30, 2015 and

December 31, 2014, this liability totaled $24 million and $23 million, respectively, and is included in other liabilities on our accompanying consolidated balance sheets. We are not currently required under applicable accounting guidance to record a liability for the second earnout payment and, as such, a liability has not been recorded on our accompanying consolidated balance sheets as of June 30, 2015 and December 31, 2014.

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We account for our 50% investment in UBBP using the equity method of accounting, and we initially measured its carrying value at cost of approximately $676 million as of February 27, 2014. Our existing wholly-owned subsidiaries and consolidated variable interest entities that were contributed into the joint ventures were deconsolidated resulting in a gain of $27 million, which is included in our consolidated statement of operations for the six months ended June 30, 2014. Approximately $11 million of the gain relates to the remeasurement of our retained investment in the contributed subsidiaries to a fair value, determined using a discounted cash flow model with several inputs, including a weighted-average discount rate of approximately 11% and a weighted-average long-term growth rate of approximately 2%.

All of our investments accounted for under the equity method of accounting are initially recorded at cost, and subsequently adjusted for our share of the net income or loss and cash contributions and distributions to or from these entities. Because the underlying net assets in our investments are denominated in a foreign currency, translation gains or losses will impact the recorded value of our investments. Translation gains or losses recorded in other comprehensive income were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014 (a)
Translation gain (loss)	$(3)	$10	$(19)	$11

During the second quarter of 2015, UBBP's Board of Directors declared and UBBP paid cash dividends on earnings through March 2015 of which our 50% share totaled $18 million. We recorded the cash dividend in operating activities on our cash flow and intend to use the cash dividends to fund the earnout payment described above. As of June 30, 2015, the amount of consolidated retained earnings which represents undistributed earnings from UBBP is $36 million.

Summarized financial information for our equity method investments is as follows:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014 (a)
USG Boral Building Products:				
Net sales	$264	$280	$492	$369
Gross profit	70	80	131	102
Operating profit	34	16	57	26
Income from continuing operations	28	10	46	17
Net income	28	10	46	17
Net income attributable to USG Boral Building Products	26	9	42	15
USG share of income from investment accounted for using the equity method	13	4	21	7
Other equity method investments:				
USG share of income from investments accounted for using the equity method	1	1	1	1
Total income from equity method investments	14	5	22	8

(a) Operating results are presented for UBBP for the four months ended June 30, 2014.

Investment in Knauf-USG

During the second quarter of 2015, our investment in Knauf-USG, our 50/50 joint venture with Gebr. Knauf Verwaltungsgesellschaft KG, , met the asset held for sale criteria, and accordingly, we recorded our investment of $36 million as asset held for sale in other current assets on the consolidated balance sheet as of June 30, 2015. Our equity method income in the Knauf-USG joint venture amounted to $2 million for the year ended December 31, 2014.

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3. Segments

Our operations are organized into four reportable segments: Gypsum (previously North American Gypsum), Ceilings (previously Worldwide Ceilings), Distribution (previously Building Products Distribution) and UBBP. See Note 2 for segment results for UBBP. Segment results for our Gypsum, Distribution and Ceilings segments were as follows:

	Three months ended June 30,		Six months ended June 30,	
(millions)	2015	2014	2015	2014 (b)
Net Sales:				
Gypsum	$617	$612	$1,194	$1,157
Ceilings [(a)]	131	130	254	255
Distribution	364	344	698	644
Eliminations	(142)	(138)	(267)	(258)
Total	$970	$948	$1,879	$1,798
Operating Profit (Loss):				
Gypsum	$98	$95	$166	$160
Ceilings [(a)]	25	24	46	39
Distribution	9	4	13	5
Corporate	(24)	(21)	(47)	(42)
Eliminations	(3)	(4)	3	2
Total	$105	$98	$181	$164

(a) Ceilings' net sales and operating profit for the six months ended June 30, 2014 includes the results, through February 27, 2014, of our wholly-owned subsidiaries and consolidated joint ventures that were contributed to UBBP.

(b) Net sales and operating profit (loss) have been recast for the periods prior to April 1, 2014 to conform with the new presentation of reportable segments.

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4. Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding plus the dilutive effect, if any, of market share units, or MSUs, performance shares, restricted stock units, or RSUs, stock options, deferred shares associated with our deferred compensation program for non-employee directors and, for the applicable periods, the potential conversion of our 10% convertible senior notes due 2018, which were converted into common stock in December 2013 and April 2014.

The reconciliation of basic earnings per share to diluted earnings per share is shown in the following table.

	Three months ended June 30,		Six months ended June 30,	
(millions, except per-share data)	2015	2014	2015	2014
Income from continuing operations	$79	$58	$103	$103
Loss from discontinued operations	—	(1)	—	(1)
Net income	79	57	103	102
Effect of dilutive securities - RSUs, MSUs, performance shares and stock options	—	—	—	—
Effect of dilutive securities - 10% convertible senior notes	—	—	—	2
Effect of dilutive securities - Deferred compensation program for non-employee directors	—	—	—	—
Income available to shareholders	$79	$57	$103	$104
Average common shares	145.4	144.5	145.4	139.7
Dilutive RSUs, MSUs, performance shares and stock options	1.6	2.3	1.6	2.5
Common shares issuable upon conversion of our 10% convertible senior notes	—	—	—	4.7
Deferred shares associated with a deferred compensation program for non-employee directors	—	0.2	0.2	—
Average diluted common shares	147.0	147.0	147.2	146.9
Earnings (loss) per average common share:				
Income from continuing operations	$0.54	$0.40	$0.70	$0.74
Loss from discontinued operations	—	(0.01)	—	(0.01)
Earnings per average common share	$0.54	$0.39	$0.70	$0.73
Diluted earnings (loss) per average common share:				
Income from continuing operations	$0.54	$0.39	$0.70	$0.72
Loss from discontinued operations	—	(0.01)	—	(0.01)
Earnings per average diluted common share	$0.54	$0.38	$0.70	$0.71

MSUs, performance shares, RSUs, and stock options and deferred shares associated with our deferred compensation program for non-employee directors that were not included in the computation of diluted earnings per share for those periods because their inclusion would be anti-dilutive were as follows:

	Three months ended June 30,		Six months ended June 30,	
(millions, common shares)	2015	2014	2015	2014
MSUs, performance shares, RSUs and stock options	1.8	2.1	1.9	2.1
Deferred shares associated with a deferred compensation program for non-employee directors	0.2	—	—	0.2

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5. Marketable Securities

Marketable securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive loss on our accompanying consolidated balance sheets. Proceeds received from sales and maturities of marketable securities were $103 million for the six months ended June 30, 2015. Our investments in marketable securities consisted of the following:

	As of June 30, 2015		As of December 31, 2014	
(millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Corporate debt securities	$57	$57	$93	$93
U.S. government and agency debt securities	2	2	22	22
Asset-backed debt securities	12	12	17	17
Certificates of deposit	9	9	18	18
Municipal debt securities	2	2	4	4
Total marketable securities	$82	$82	$154	$154

The realized and unrealized gains and losses for the three and six months ended June 30, 2015 and 2014 were immaterial. Cost basis for securities sold are determined on a first-in-first-out basis.

Contractual maturities of marketable securities as of June 30, 2015 were as follows:

(millions)	Amortized Cost	Fair Value
Due in 1 year or less	$61	$61
Due in 1-5 years	21	21
Total marketable securities	$82	$82

Actual maturities may differ from the contractual maturities because issuers of the securities may have the right to prepay them.

6. Intangible Assets

Intangible assets are included in other assets on our accompanying consolidated balance sheets. Intangible assets with definite lives are amortized. These assets are summarized as follows:

	As of June 30, 2015			As of December 31, 2014		
(millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible Assets with Definite Lives:						
Customer relationships	$70	$ (58)	$12	$70	$ (54)	$16
Other	9	(7)	2	9	(7)	2
Total	$79	$ (65)	$14	$79	$ (61)	$18

Total amortization expense was $2 million and $4 million for the three and six months ended June 30, 2015 and 2014, respectively. Estimated amortization expense for the remainder of 2015 and for future years is as follows:

(millions)	2015	2016	2017	2018 and thereafter
Estimated future amortization expense	$4	$7	$2	$1

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Intangible assets with indefinite lives are not amortized. These assets are summarized as follows:

(millions)	As of June 30, 2015 Gross Carrying Amount	Accumulated Impairment Charges	Net	As of December 31, 2014 Gross Carrying Amount	Accumulated Impairment Charges	Net
Intangible Assets with Indefinite Lives:						
Trade names	$22	$ —	$22	$22	$ —	$22
Other	9	(1)	8	9	(1)	8
Total	$31	$ (1)	$30	$31	$ (1)	$30

As of December 31, 2014, approximately $5 million of other indefinite-lived intangible assets met the criteria to be classified as held for sale and therefore were included in other current assets on our accompanying consolidated balance sheet. As of June 30, 2015, these indefinite-lived intangible assets were no longer recorded as held for sale.

7. Debt

Total debt, including the current portion of long-term debt, consisted of the following:

(millions)	June 30, 2015	December 31, 2014
5.5% senior notes due 2025	$350	$—
5.875% senior notes due 2021	350	350
6.3% senior notes due 2016	500	500
7.75% senior notes due 2018, net of discount	500	500
7.875% senior notes due 2020, net of discount	249	249
8.375% senior notes due 2018	—	350
Ship mortgage facility (includes current portion of long-term debt: 2015 - $0, 2014 - $4)	—	21
Industrial revenue bonds (due 2028 through 2034)	239	239
Total	$2,188	$2,209

REPURCHASE OF SENIOR NOTES

In the first quarter of 2015, we repurchased $350 million of our 8.375% Senior Notes due in 2018, or the 2018 Senior Notes, through both a cash tender offer and a subsequent notice of redemption of the remaining 2018 Senior Notes. On February 24, 2015, we completed a cash tender offer pursuant to which we repurchased $126 million of the 2018 Senior Notes for aggregate consideration, including tender offer premium and accrued and unpaid interest, of $135 million. On March 26, 2015, we repurchased the remaining $224 million of the 2018 Senior Notes for aggregate consideration, including premiums and accrued and unpaid interest, of $242 million. As a result of the repurchases, we recorded a loss on early extinguishment of debt of $19 million including premiums and write-off of deferred financing fees.

ISSUANCE OF SENIOR NOTES

On February 24, 2015 we issued $350 million of 5.5% senior notes due March 1, 2025, or the 2025 Senior Notes. The net proceeds from the issuance of the 2025 Senior Notes and cash on hand were used to fund the repurchases of the 2018 Senior Notes and all related costs and expenses.

The 2025 Senior Notes were recorded on the accompanying consolidated balance sheets at $350 million. We deferred approximately $6 million of financing costs that are being amortized to interest expense over the term of the notes. Our obligations under the 2025 Senior Notes are guaranteed on a senior unsecured basis by certain of our domestic subsidiaries. The notes are redeemable at any time, or in part from time to time, at our option on or after March 1, 2020 at stated redemption prices, plus any accrued and unpaid interest to the redemption date. In addition, we may redeem the notes at our option at any time after March 1, 2020, in whole or in part, at a redemption price equal to 102.75% of the principal amount of the notes being redeemed plus any accrued and unpaid interest on the principal amount being redeemed to the redemption date.

The 2025 Senior Notes contain a provision the same as or similar to the provision in our other senior notes that requires us to offer to purchase those notes at 101% of their principal amount (plus accrued and unpaid interest) in the event of a change in control.

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The indenture governing the 2025 Senior Notes contains events of default, covenants and restrictions that are substantially the same as those governing our other senior notes, including a limitation on our ability and the ability of certain of our subsidiaries to create or incur secured indebtedness.

SHIP MORTGATE FACILITY

In February 2015, as consideration for the consent of DVB Bank SE, as lender, agent and security trustee of the secured loan facility agreement, to allow Gypsum Transportation Limited, or GTL, to enter into certain future contracts of affreightment, GTL voluntarily repaid $2 million of the outstanding loan balance under its secured loan facility. The repayment provisions of the secured loan facility were not otherwise modified. The voluntary payment was not classified in the current portion of long-term debt on our accompanying consolidated balance sheet as of December 31, 2014. GTL also repaid $1 million in the first quarter of 2015 in accordance with the terms of the original loan facility agreement. In April 2015, in connection with the sale of two self-unloading vessels, GTL repaid the outstanding loan balance of $18 million. See Note 17 for discussion of GTL.

CREDIT FACILITY

Taking into account the most recent borrowing base calculation delivered under the credit facility, which reflects trade receivables and inventory as of June 30, 2015, and outstanding letters of credit, borrowings available under the credit facility were approximately $352 million, including $50 million for CGC. As of June 30, 2015 and during the quarter then-ended, there were no borrowings under the facility. Had there been any borrowings as of that date, the applicable interest rate would have been 2.03% for loans in the US and 2.74% for loans in Canada. Outstanding letters of credit totaled $53 million as of June 30, 2015.

The fair value of our debt was approximately $2.315 billion as of June 30, 2015 and $2.338 billion as of December 31, 2014. The fair values were based on quoted prices for identical or similar liabilities in markets that are not active or valuation models in which all significant inputs and value drivers are observable and, as a result, are classified as Level 2 inputs. See Note 9 for further discussion on fair value measurements and classifications.

As of June 30, 2015, we were in compliance with the covenants contained in our credit facilities.

8. Derivative Instruments

We use derivative instruments to manage selected commodity price and foreign currency exposures as described below. We do not use derivative instruments for speculative trading purposes, and we typically do not hedge beyond three years. Cash flows from derivative instruments are included in net cash used for operating activities in the consolidated statements of cash flows.

COMMODITY DERIVATIVE INSTRUMENTS

As of June 30, 2015, we had 20 million mmBTUs (millions of British Thermal Units) in aggregate notional amount of outstanding natural gas swap contracts to hedge forecasted purchases. All of these contracts mature by December 31, 2017. For contracts designated as cash flow hedges, the net unrealized loss that remained in accumulated other comprehensive income (loss), or AOCI, as of June 30, 2015 was $16 million and as of December 31, 2014 was $20 million. No ineffectiveness was recorded on contracts designated as cash flow hedges in the first six months of both 2015 and 2014. Gains and losses on contracts designated as cash flow hedges are reclassified into earnings when the underlying forecasted transactions affect earnings. For contracts designated as cash flow hedges, we reassess the probability of the underlying forecasted transactions occurring on a quarterly basis. Changes in fair value on contracts not designated as cash flow hedges are recorded to earnings. The fair value of those contracts not designated as cash flow hedges was a $4 million unrealized loss as of June 30, 2015 and a $5 million unrealized loss as of December 31, 2014.

FOREIGN EXCHANGE DERIVATIVE INSTRUMENTS

We have foreign exchange forward contracts to hedge forecasted purchases of products and services denominated in foreign currencies. The notional amount of these contracts was $99 million as of June 30, 2015, and they mature by December 23, 2016. These forward contracts are designated as cash flow hedges and no ineffectiveness was recorded in the first six months of both 2015 and 2014. Gains and losses on the contracts are reclassified into earnings when the underlying transactions affect earnings. The fair value of these contracts that remained in AOCI was an unrealized gain of $4 million and $3 million as of June 30, 2015 and December 31, 2014, respectively.

COUNTERPARTY RISK, MASTER NETTING ARRANGEMENTS AND BALANCE SHEET OFFSETTING

We are exposed to credit losses in the event of nonperformance by the counterparties to our derivative instruments. As of June 30, 2015, our derivatives were in a $16 million net liability position. All of our counterparties have investment grade credit ratings; accordingly, we anticipate that they will be able to fully satisfy their obligations under the contracts.

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All of our derivative contracts are governed by master netting agreements negotiated between us and the counterparties that reduce our counterparty credit exposure. The agreements outline the conditions (such as credit ratings and net derivative fair values) upon which we, or the counterparties, are required to post collateral. As required by certain of our agreements, we had $25 million of collateral posted with our counterparties related to our derivatives as of June 30, 2015. Amounts paid as cash collateral are included in receivables on our accompanying consolidated balance sheet.

We have not adopted an accounting policy to offset fair value amounts related to derivative contracts under our master netting arrangements; therefore, individual derivative contracts are reflected on a gross basis, as either assets or liabilities, on our consolidated balance sheets, based on their fair value as of the balance sheet date.

FINANCIAL STATEMENT INFORMATION

The following are the pretax effects of derivative instruments on the consolidated statements of operations for the three months ended June 30, 2015 and 2014.

(millions)	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion) 2015	2014	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) 2015	2014
Derivatives in Cash Flow Hedging Relationships					
Commodity contracts	$1	$(1)	Cost of products sold	$(4)	$1
Foreign exchange contracts	(2)	(2)	Cost of products sold	1	—
Total	$(1)	$(3)		$(3)	$1

(millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives 2015	2014
Derivatives Not Designated as Hedging Instruments			
Commodity contracts	Cost of products sold	$—	$—
Total		$—	$—

The following are the pretax effects of derivative instruments on the consolidated statements of operations for the six months ended June 30, 2015 and 2014.

(millions)	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion) 2015	2014	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) 2015	2014
Derivatives in Cash Flow Hedging Relationships					
Commodity contracts	$(4)	$2	Cost of products sold	$(7)	$2
Foreign exchange contracts	3	—		2	1

			Cost of products sold		
Total	$(1	) $2		$(5	) $3

(millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives 2015	2014
Derivatives Not Designated as Hedging Instruments			
Commodity contracts	Cost of products sold	$(1)	$1
Total		$(1)	$1

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The following are the fair values of derivative instruments and the location on our accompanying consolidated balance sheets as of June 30, 2015 and December 31, 2014.

	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
(millions)		6/30/15	12/31/14		6/30/15	12/31/14
Derivatives in Cash Flow Hedging Relationships						
Commodity contracts	Other current assets	$1	$1	Accrued expenses	$11	$14
Commodity contracts	Other assets	—	—	Other liabilities	6	7
Foreign exchange contracts	Other current assets	4	3	Accrued expenses	—	—
Total derivatives in cash flow hedging relationships		$5	$4		$17	$21
Derivatives Not Designated as Hedging Instruments						
Commodity contracts	Other current assets	$—	$—	Accrued expenses	$3	$4
Commodity contracts	Other assets	—	—	Other liabilities	1	1
Total derivatives not designated as hedging instruments		$—	$—		$4	$5
Total derivatives	Total assets	$5	$4	Total liabilities	$21	$26

As of June 30, 2015, we had no derivatives designated as fair value hedges or net investment hedges.

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9. Fair Value Measurements

Certain assets and liabilities are required to be recorded at fair value. There are three levels of inputs that may be used to measure fair value. Level 1 is defined as quoted prices for identical assets and liabilities in active markets. Level 2 is defined as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 3 is defined as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Certain assets and liabilities are measured at fair value on a nonrecurring basis rather than on an ongoing basis, but are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment or when a new liability is being established that requires fair value measurement.

The cash equivalents shown in the table below primarily consist of money market funds that are valued based on quoted prices in active markets and, as a result, are classified as Level 1. Equity mutual funds are valued based on quoted markets in active markets and, as a result, are classified as Level 1. We use quoted prices, other readily observable market data and internally developed valuation models when valuing our marketable securities and derivatives and have classified them as Level 2. Marketable securities are valued using income and market value approaches and values are based on quoted prices or other observable market inputs received from data providers. The valuation process may include pricing matrices, or prices based upon yields, credit spreads or prices of securities of comparable quality, coupon, maturity and type. Derivatives are valued using the income approach including discounted-cash-flow models or a Black-Scholes option pricing model and readily observable market data. The inputs for the valuation models are obtained from data providers and include end-of-period spot and forward natural gas prices, foreign currency exchange rates, natural gas price volatility and LIBOR and swap rates for discounting the cash flows implied from the derivative contracts.

Our assets and liabilities measured at fair value on a recurring basis were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total	
(millions)	6/30/15	12/31/14	6/30/15	12/31/14	6/30/15	12/31/14	6/30/15	12/31/14
Cash equivalents	$129	$93	$19	$32	$—	$—	$148	$125
Equity mutual funds	4	4	—	—	—	—	4	4
Marketable securities:								
Corporate debt securities	—	—	57	93	—	—	57	93
U.S. government and agency debt securities	—	—	2	22	—	—	2	22
Asset-backed debt securities	—	—	12	17	—	—	12	17
Certificates of deposit	—	—	9	18	—	—	9	18
Municipal debt securities	—	—	2	4	—	—	2	4
Derivative assets	—	—	5	4	—	—	5	4
Derivative liabilities	—	—	(21)	(26)	—	—	(21)	(26)

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10. Employee Retirement Plans

The components of net pension and postretirement benefits costs are summarized in the following table:

(millions)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Pension:				
Service cost of benefits earned	$12	$9	$25	$18
Interest cost on projected benefit obligation	17	17	34	33
Expected return on plan assets	(21)	(20)	(42)	(40)
Net amortization	10	6	19	12
Net pension cost	$18	$12	$36	$23
Postretirement:				
Service cost of benefits earned	$—	$—	$1	$1
Interest cost on projected benefit obligation	2	2	3	4
Net amortization	(8)	(9)	(16)	(18)
Net postretirement benefit	$(6)	$(7)	$(12)	$(13)

During the first six months of 2015, we made cash contributions of $50 million to the USG Corporation Retirement Plan Trust, $6 million to our pension plan in Canada, and $2 million, in aggregate, to certain other domestic pension plans. We expect to make total contributions to our pension plans in 2015 of approximately $61 million.

11. Share-Based Compensation

During the first six months of 2015, we granted share-based compensation in the form of market share units, or MSUs, performance shares, and restricted stock units, or RSUs, to eligible participants under our Long-Term Incentive Plan. We recognize expense on all share-based grants over the service period, which is the shorter of the period until the employees' retirement eligibility dates and the service period of the award for awards expected to vest. Expense is generally reduced for estimated forfeitures. Awards granted during the first six months of 2015 and assumptions used to determine fair value were as follows:

	MSUs	Performance Shares	RSUs
Awards granted	473,728	147,290	48,000
Weighted average fair value	$30.06	$30.63	$27.69
Expected volatility	42.70%	42.70%	N/A
Risk-free rate (a)	1.09%	1.09%	N/A
Expected term (in years) (b)	2.95	2.95	N/A
Expected dividends	—	—	N/A

(a) The risk-free rate was based on zero coupon U.S. government issues at the time of grant.

(b) The expected term represents the period from the valuation date to the end of the performance period.

MARKET SHARE UNITS

The MSUs granted during the first six months of 2015 generally vest after a three-year period based on our actual stock price performance during such period. The number of MSUs earned will vary from zero to 150% of the number of MSUs awarded depending on the actual performance of our stock price. In the case of termination of employment due to death, disability or retirement during the performance period, vesting will be pro-rated based on the number of full months employed in 2015. Awards earned will be issued at the end of the three-year period. MSUs may vest earlier in the case of a change in control in most circumstances only if there is also a related loss of employment or diminution of duties. Each MSU earned will be settled in common stock.

We estimated the fair value of each MSU granted on the date of grant using a Monte Carlo simulation that used the assumptions noted in the table above. Volatility was based on stock price history immediately prior to grant for a period commensurate with the remaining life of the plan.

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PERFORMANCE SHARES

The performance shares granted during the first six months of 2015 generally vest after a three-year period based on our total stockholder return relative to the performance of the Dow Jones U.S. Construction and Materials Index, with adjustments to that index in certain circumstances, for the three-year period. The number of performance shares earned will vary from zero to 200% of the number awarded depending on that relative performance. Generally, vesting will be pro-rated based on the number of full months employed during the performance period in the case of death, disability, or retirement, and pro-rated awards earned will be issued at the end of the three-year period. Each performance share earned will be settled in common stock.

We estimated the fair value of each performance share granted on the date of grant using a Monte Carlo simulation that used the assumptions noted in the table above. Volatility was based on stock price history immediately prior to grant for a period commensurate with the remaining life of the plan.

RESTRICTED STOCK UNITS

The RSUs granted during the first six months of 2015 vest after a specified number of years from the date of grant or at a specified date. Generally, RSUs may vest earlier in the case of death, disability, or a change in control, provided that RSUs granted after 2012 will vest upon a change in control in most circumstances only if there is also a related loss of employment or diminution of duties. Each RSU is settled in a share of our common stock after the vesting period. The fair value of each RSU granted is equal to the closing price of our common stock on the date of grant.

12. Supplemental Balance Sheet Information

INVENTORIES

Total inventories consisted of the following:

(millions)	June 30, 2015	December 31, 2014
Finished goods	$218	$232
Work in progress	36	35