USG CORP
Form 10-Q
October 31, 2011

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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 September 30, 2011

OR

o **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 o

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 o

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 o Non-accelerated filer o Smaller reporting company o

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 September 30, 2011 was 105,308,396.

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

(millions, except per-share and share data)	Three Months ended September 30,		Nine Months ended September 30,	
	2011	2010	2011	2010
Net sales	$ 792	$ 758	$ 2,274	$ 2,243
Cost of products sold	739	707	2,132	2,123
Gross profit	53	51	142	120
Selling and administrative expenses	70	74	227	231
Restructuring and long-lived asset impairment charges	59	35	70	54
Operating loss	(76)	(58)	(155)	(165)
Interest expense	54	45	158	134
Interest income	(1)	(1)	(5)	(3)
Other income, net			(2)	
Loss before income taxes	(129)	(102)	(306)	(296)
Income tax expense (benefit)	(14)	(2)	(16)	(12)
Net loss	$ (115)	$ (100)	$ (290)	$ (284)
Basic loss per common share	$ (1.09)	$ (1.00)	$ (2.80)	$ (2.85)
Diluted loss per common share	$ (1.09)	$ (1.00)	$ (2.80)	$ (2.85)
Average common shares	105,304,781	100,108,673	103,592,899	99,671,209
Average diluted common shares	105,304,781	100,108,673	103,592,899	99,671,209

See accompanying Notes to Condensed Consolidated Financial Statements.

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USG CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(millions)		As of September 30, 2011		As of December 31, 2010
Assets				
Current Assets:				
Cash and cash equivalents	$	356	$	629
Short-term marketable securities		161		128
Restricted cash		1		4
Receivables (net of reserves $17 and $17)		376		327
Inventories		320		290
Income taxes receivable		7		3
Deferred income taxes		3		6
Other current assets		54		50
Total current assets		1,278		1,437
Long-term marketable securities		160		150
Property, plant and equipment (net of accumulated depreciation and depletion $1,590 and $1,546)		2,129		2,266
Deferred income taxes		12		
Other assets		240		234
Total assets	$	3,819	$	4,087
Liabilities and Stockholders Equity				
Current Liabilities:				
Accounts payable	$	249	$	218
Accrued expenses		272		294
Current portion of long-term debt		7		7
Income taxes payable		8		10
Total current liabilities		536		529
Long-term debt		2,298		2,301
Deferred income taxes		8		7
Other liabilities		602		631
Commitments and contingencies				
Stockholders Equity:				
Preferred stock				

Common stock	10	10
Treasury stock		(55)
Capital received in excess of par value	2,559	2,565
Accumulated other comprehensive loss	(53)	(50)
Retained earnings (deficit)	(2,141)	(1,851)
Total stockholders equity	375	619
Total liabilities and stockholders equity	$ 3,819	$ 4,087

See accompanying Notes to Condensed Consolidated Financial Statements.

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USG CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)	Nine Months ended September 30, 2011	2010
Operating Activities		
Net loss	$ (290)	$ (284)
Adjustments to reconcile net loss to net cash:		
Long-lived asset impairments	52	28
Depreciation, depletion and amortization	125	134
Share-based compensation expense	19	20
Deferred income taxes	(11)	2
Noncash income tax benefit	(3)	(19)
Gain on asset dispositions	(1)	(1)
(Increase) decrease in working capital:		
Receivables	(52)	(54)
Income taxes receivable	(4)	15
Inventories	(30)	(8)
Prepaid expenses	(2)	
Payables	37	18
Accrued expenses	(7)	(5)
(Increase)/decrease in other assets	(8)	11
Increase in other liabilities	1	19
Other, net	1	(2)
Net cash used for operating activities	(173)	(126)
Investing Activities		
Purchases of marketable securities	(295)	(188)
Sales or maturities of marketable securities	251	44
Capital expenditures	(38)	(18)
Loan to joint venture	(4)	
Net proceeds from asset dispositions	3	3
Return (deposit) of restricted cash	2	(1)
Net cash used for investing activities	(81)	(160)
Financing Activities		
Repayment of debt	(5)	(5)
Issuance of common stock		1
Repurchases of common stock to satisfy employee tax withholding obligations	(3)	(2)
Net cash used for financing activities	(8)	(6)

Effect of exchange rate changes on cash	(11)	2
Net decrease in cash and cash equivalents	(273)	(290)
Cash and cash equivalents at beginning of period	629	690
Cash and cash equivalents at end of period	$ 356	$ 400
Supplemental Cash Flow Disclosures:		
Interest paid	$ 141	$ 129
Income taxes paid (refunded), net	$ 7	$ (11)
Amount in accounts payable for capital expenditures	$ 1	$ 2

See accompanying Notes to Condensed Consolidated Financial Statements.

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USG CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

1. Preparation of Financial Statements

We prepared the accompanying unaudited condensed 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 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. In the opinion of our management, the financial statements reflect all adjustments, which are of a normal recurring nature except as noted, necessary for a fair presentation of our financial results for the interim periods. The results of operations for the three months and nine months ended September 30, 2011 are not necessarily indicative of the results of operations to be expected for the entire year. 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, 2010 which we filed with the SEC on February 11, 2011.

2. Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This ASU clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This guidance is effective for interim and annual periods beginning on or after December 15, 2011, applied prospectively. Our effective date is January 1, 2012. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, which requires comprehensive income to be reported in either a single statement of comprehensive income or in separate, consecutive statements reporting net income and other comprehensive income. The ASU requires retrospective application and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will require us to change the presentation of comprehensive income and its components which we currently report within the statement of changes in stockholders equity in our Annual Report on Form 10-K and in a note to the financial statements in our quarterly reports on Form 10-Q.

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3. Restructuring and Long-Lived Asset Impairment Charges

As part of our continuing objective to adapt our operations to market conditions, we recorded restructuring and long-lived asset impairment charges totaling $59 million during the third quarter of 2011. These charges related to the permanent closure of our gypsum quarry and ship loading facility in Windsor, Nova Scotia, Canada, and L&W Supply Corporation s closure of nine distribution branches and its Nevada custom door and frames business.

We idled the gypsum quarry and ship loading facility during the first quarter of this year, and have now decided that we will permanently close it. As a result of that decision, we recorded additional long-lived asset impairment charges totaling $51 million during the third quarter of 2011. This amount included $41 million related to the write-down of the carrying values of property, machinery, equipment and buildings and $10 million related to the acceleration of the Windsor facility s asset retirement obligation. Other third quarter restructuring charges included $4 million for lease obligations, $2 million for severance and $2 million for asset impairment related to the write-down of inventory. On a segment basis, $52 million of the charges related to North American Gypsum and $7 million to Building Products Distribution.

Restructuring and long-lived asset impairment charges for the first nine months of 2011 totaled $70 million. These charges included $52 million for long-lived asset impairments, $6 million for severance, $6 million for lease obligations, $4 million for exit costs related to production facilities closed in 2010 and 2009 and $2 million for asset impairment related to the write-down of inventory. On a segment basis, $61 million of the charges related to North American Gypsum, $8 million to Building Products Distribution and $1 million to Corporate.

RESTRUCTURING RESERVES

Restructuring reserves totaling $36 million were included in accrued expenses and other liabilities on the condensed consolidated balance sheet as of September 30, 2011. Total cash payments charged against the restructuring reserve in the first nine months of 2011 amounted to $29 million. We expect future payments to be approximately $6 million during the remainder of 2011, $12 million in 2012 and $18 million after 2012. All restructuring-related payments in the first nine months of 2011 were funded with cash on hand. We expect that the future payments will be funded with cash from operations or cash on hand. The restructuring reserve is summarized as follows:

(millions)	Balance as of 12/31/10	2011 Activity Charges	Cash Payments	Asset Impairment	Balance as of 9/30/11
Severance	$ 11	$ 6	$ (13)	$	$ 4
Lease obligations	29	6	(9)		26
Asset impairments		54		(54)	
Other exit costs	9	4	(7)		6
Total	$ 49	$ 70	$ (29)	$ (54)	$ 36

2010

Third quarter 2010 restructuring and long-lived asset impairment charges totaled $35 million. These charges included $6 million for lease obligations and $1 million for severance related to prior-period restructuring activities. The charges for the quarter also included $28 million for long-lived asset impairments related to the write-down of the carrying values of machinery, equipment and buildings at the temporarily idled gypsum wallboard production facilities in Baltimore, Md., and Stony Point, N.Y., one of the temporarily idled gypsum wallboard production facilities in Jacksonville, Fla. and the temporarily idled paper production facility in Jacksonville, Fla. The carrying value of the machinery, equipment and buildings exceeded the estimated future undiscounted cash flows for their remaining useful lives due to the extended downturn in our markets and our forecasts regarding the timing and rate of recovery in those markets.

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For the first nine months of 2010, restructuring and long-lived asset impairment charges were $54 million. This amount primarily included charges related to the write-down of the carrying values of machinery, equipment and buildings at the temporarily idled gypsum wallboard production facilities in Baltimore, Md., and Stony Point, N.Y., one of the temporarily idled gypsum wallboard production facilities in Jacksonville, Fla. and the temporarily idled paper production facility in Jacksonville, Fla., the closure of a gypsum wallboard production facility in Southard, Okla., the temporary idling of a gypsum wallboard production facility in Stony Point, N.Y., the curtailment of operations at the mining facility in Canada and the closure of five distribution centers. The charges included $28 million for long-lived asset impairments, $12 million for other asset impairments and lease obligations, $10 million for severance and $4 million for other exit costs.

4. Segments

Our operations are organized into three reportable segments: North American Gypsum, Building Products Distribution and Worldwide Ceilings. Segment results were as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
(millions)	2011	2010	2011	2010
Net Sales:				
North American Gypsum	$ 437	$ 413	$ 1,273	$ 1,265
Building Products Distribution	283	281	796	811
Worldwide Ceilings	183	174	533	511
Eliminations	(111)	(110)	(328)	(344)
Total	$ 792	$ 758	$ 2,274	$ 2,243
Operating Profit (Loss):				
North American Gypsum	$ (70)	$ (43)	$ (115)	$ (89)
Building Products Distribution	(17)	(24)	(53)	(85)
Worldwide Ceilings	25	21	73	62
Corporate	(16)	(13)	(60)	(50)
Eliminations	2	1		(3)
Total	$ (76)	$ (58)	$ (155)	$ (165)

Restructuring and long-lived asset impairment charges by segment were as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
(millions)	2011	2010	2011	2010
North American Gypsum	$ 52	$ 30	$ 61	$ 40
Building Products Distribution	7	5	8	14
Worldwide Ceilings				
Corporate			1	
Total	$ 59	$ 35	$ 70	$ 54

See Note 3 for information related to restructuring and long-lived asset impairment charges and the restructuring reserve as of September 30, 2011.

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5. Earnings (Loss) Per Share

Basic earnings (loss) per share are based on the weighted average number of common shares outstanding. Diluted earnings per share are based on the weighted average number of common shares outstanding plus the dilutive effect, if any, of restricted stock units, or RSUs, and performance shares, the potential exercise of outstanding stock options and the potential conversion of our $400 million of 10% convertible senior notes. The reconciliation of basic loss per share to diluted loss per share is shown in the following table:

(millions, except per-share and share data)	Net Loss	Shares (000)	Weighted Average Per-Share Amount
Three Months Ended September 30, 2011:			
Basic loss	$ (115)	105,305	$ (1.09)
Diluted loss	$ (115)	105,305	$ (1.09)
Three Months Ended September 30, 2010:			
Basic loss	$ (100)	100,109	$ (1.00)
Diluted loss	$ (100)	100,109	$ (1.00)
Nine Months Ended September 30, 2011:			
Basic loss	$ (290)	103,593	$ (2.80)
Diluted loss	$ (290)	103,593	$ (2.80)
Nine Months Ended September 30, 2010:			
Basic loss	$ (284)	99,671	$ (2.85)
Diluted loss	$ (284)	99,671	$ (2.85)

The diluted losses per share for the third quarter and the first nine months of 2011 and 2010 were computed using the weighted average number of common shares outstanding during those periods. The approximately 35.1 million shares issuable upon conversion of the $400 million of 10% convertible senior notes we issued in 2008 at the initial conversion price of $11.40 per share were not included in the computation of diluted loss per share for those periods because their inclusion was anti-dilutive. Stock options, RSUs and performance shares with respect to 4.9 million common shares for the third quarter of 2011, 3.4 million common shares for the first nine months of 2011, 6.5 million common shares for the third quarter of 2010 and 6.7 million common shares for the first nine months of 2010 were not included in the computation of diluted loss per share for those periods because their inclusion was anti-dilutive.

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6. 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 income (loss), or AOCI, on our condensed consolidated balance sheets. The realized and unrealized gains and losses as of and for the quarter ended September 30, 2011 were immaterial. Proceeds received from sales and maturities of marketable securities were $251 million for the nine months ended September 30, 2011. Our investments in marketable securities as of September 30, 2011 consisted of the following:

(millions)	Amortized Cost	Fair Value
Corporate debt securities	$ 180	$ 180
U.S. government and agency debt securities	53	53
Asset-backed debt securities	22	22
Certificates of deposit	44	44
Municipal debt securities	22	22
Total marketable securities	$ 321	$ 321

Contractual maturities of marketable securities as of September 30, 2011 were as follows:

(millions)	Amortized Cost	Fair Value
Due in 1 year or less	$ 161	$ 161
Due in 1-5 years	160	160
Due in more than 5 years		
Total marketable securities	$ 321	$ 321

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

7. Intangible Assets

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

	As of September 30, 2011			As of December 31, 2010		
(millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible Assets with Definite Lives:						
Customer relationships	$ 70	$ (32)	$ 38	$ 70	$ (26)	$ 44
Other	9	(5)	4	9	(5)	4
Total	$ 79	$ (37)	$ 42	$ 79	$ (31)	$ 48

Total amortization expense was $2 million and $6 million for the third quarter and first nine months of 2011, respectively, and $1 million and $5 million for the third quarter and first nine months of 2010, respectively. Estimated annual amortization expense is as follows:

(millions)	2011	2012	2013	2014	2015	2016
Estimated annual amortization expense	$ 8	$ 8	$ 7	$ 7	$ 7	$ 7

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

	As of September 30, 2011	As of December 31, 2010