USG CORP
Form 10-Q
July 31, 2008

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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, 2008

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 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 (Do not check if a smaller reporting company)	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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o Not applicable. Although the registrant was involved in bankruptcy proceedings during the preceding five years, it did not distribute securities under its confirmed plan of reorganization.

The number of shares of the registrant s common stock outstanding as of June 30, 2008 was 99,076,277.

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

USG CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(millions, except per-share and share data)	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months ended June 30, 2008	Six Months ended June 30, 2007
Net sales	$ 1,251	$ 1,408	$ 2,416	$ 2,667
Cost of products sold	1,180	1,206	2,304	2,253
Gross profit	71	202	112	414
Selling and administrative expenses	94	99	196	216
Restructuring and impairment charges	21	15	25	15
Operating profit (loss)	(44)	88	(109)	183
Interest expense	21	19	38	63
Interest income	(1)	(5)	(3)	(13)
Other income, net		(2)	(1)	(2)
Earnings (loss) before income taxes	(64)	76	(143)	135
Income tax expense (benefit)	(24)	20	(58)	38
Net earnings (loss)	(40)	56	(85)	97
Earnings (loss) per common share:				
Basic	$ (0.40)	$ 0.56	$ (0.85)	$ 1.01
Diluted	$ (0.40)	$ 0.56	$ (0.85)	$ 1.01
Average common shares	99,071,435	98,933,442	99,064,529	95,154,810
Average diluted common shares	99,071,435	99,285,127	99,064,529	95,475,012

See accompanying Notes to Condensed Consolidated Financial Statements.

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USG CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(millions)		As of June 30, 2008		As of December 31, 2007
Assets				
Current Assets:				
Cash and cash equivalents	$	181	$	297
Receivables (net of reserves $16 and $17)		553		430
Inventories		416		377
Income taxes receivable		15		37
Deferred income taxes		27		53
Other current assets		123		57
Total current assets		1,315		1,251
Property, plant and equipment (net of accumulated depreciation and depletion $1,328 and $1,249)		2,665		2,596
Deferred income taxes		285		228
Goodwill		229		226
Other assets		346		320
Total Assets	$	4,840	$	4,621
Liabilities and Stockholders Equity				
Current Liabilities:				
Accounts payable	$	386	$	328
Accrued expenses		243		234
Income taxes payable		7		5
Total current liabilities		636		567
Long-term debt		1,385		1,238
Deferred income taxes		11		10
Other liabilities		626		613
Commitments and contingencies				
Stockholders Equity:				
Preferred stock				
Common stock		10		10
Treasury stock		(203)		(204)
Capital received in excess of par value		2,624		2,607
Accumulated other comprehensive income		65		9
Retained earnings (deficit)		(314)		(229)

Total stockholders equity		2,182		2,193
Total Liabilities and Stockholders Equity	$	4,840	$	4,621

See accompanying Notes to Condensed Consolidated Financial Statements.

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USG CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)	Six Months Ended June 30, 2008	2007
Operating Activities		
Net earnings (loss)	$ (85)	$ 97
Adjustments to reconcile net earnings (loss) to net cash:		
Depreciation, depletion and amortization	89	87
Share-based compensation expense	18	15
Deferred income taxes	(66)	18
(Increase) decrease in working capital (net of acquisitions):		
Receivables	(122)	(88)
Income taxes receivable	22	1,068
Inventories	(39)	15
Payables	80	15
Accrued expenses	9	(43)
Decrease (increase) in other assets	(13)	(35)
Increase in other liabilities	17	30
Reorganization distribution other		(40)
Other, net	(1)	12
Net cash (used for) provided by operating activities	(91)	1,151
Investing Activities		
Capital expenditures	(172)	(224)
Acquisitions of businesses, net of cash acquired	(1)	(279)
Return of restricted cash		6
Net proceeds from asset disposition		1
Net cash used for investing activities	(173)	(496)
Financing Activities		
Issuance of debt	522	
Repayment of debt	(375)	(1,265)
Payment of debt issuance fees	(1)	
Proceeds from equity offering, net of fees		422
Net cash provided by (used for) financing activities	146	(843)
Effect of exchange rate changes on cash	2	3
Net decrease in cash and cash equivalents	(116)	(185)
Cash and cash equivalents at beginning of period	297	565

Cash and cash equivalents at end of period	$ 181	$ 380
Supplemental Cash Flow Disclosures:		
Interest paid	36	55
Income taxes refunded, net	(19)	(1,046)

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 Statements, 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 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, necessary for a fair presentation of our financial results for the interim periods. 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, 2007, which we filed with the Securities and Exchange Commission on February 15, 2008.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 157, Fair Value Measurements. This statement defines fair value in generally accepted accounting principles and expands disclosures about fair value measurements that are required or permitted under other accounting pronouncements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Our adoption of this statement effective January 1, 2008 had an immaterial impact on our financial statements and we have complied with the disclosure provisions of this statement. We also adopted the deferral provisions of FSP SFAS No. 157-2, which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. (see Note 11).

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In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of the first fiscal year beginning after November 15, 2007. Upon our adoption of this statement effective January 1, 2008, we elected not to fair value financial instruments and certain other items under SFAS No. 159. Therefore, this statement had no impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. The objective of this statement is to improve the relevance and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141(R) presents several significant changes from current accounting practices for business combinations, most notably the following: revised definition of a business; a shift from the purchase method to the acquisition method; expensing of acquisition-related transaction costs; recognition of contingent consideration and contingent assets and liabilities at fair value; and capitalization of acquired in-process research and development. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will adopt this statement for acquisitions consummated after its effective date and for deferred tax adjustments for acquisitions completed before its effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. Under the new standard, noncontrolling interests are to be treated as a separate component of stockholders equity, not as a liability or other item outside of stockholders equity. The practice of classifying minority interests within the mezzanine section of the balance sheet will be eliminated and the current practice of reporting minority interest expense also will change. The new standard also requires that increases and decreases in the noncontrolling ownership amount be accounted for as equity transactions. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are currently reviewing this pronouncement to determine the impact, if any, that it may have on our financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit risk related contingent features in derivative agreements, counterparty credit risk, and a company s strategies and objectives for using derivative instruments. The Statement expands the current disclosure framework in SFAS No. 133. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. We will comply with the disclosure provisions of this statement after its effective date.

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3. RESTRUCTURING AND IMPAIRMENT CHARGES

In response to adverse market conditions, we implemented several restructuring activities in 2008 and 2007.

2008 Restructuring Charges

During the first six months of 2008, we recorded restructuring charges totaling $25 million pretax. Of this amount, $21 million was recorded in the second quarter and $4 million was recorded in the first quarter.

The second quarter restructuring charges of $21 million included $15 million for salaried workforce reductions. The number of employees terminated and open positions eliminated during the second quarter as a result of these reductions was approximately 450. Charges of $5 million related to the closure of distribution locations and additional expenses associated with manufacturing facilities that were shut down in the first quarter of 2008. The remaining $1 million primarily related to expenses associated with the closing of facilities in 2007.

The first quarter restructuring charges of $4 million included $3 million primarily for severance related to the closure of our gypsum wallboard line in Boston, Mass., as well as the temporary shutdowns of our gypsum wallboard line in Fort Dodge, Iowa, and our paper mill in Gypsum, Ohio and for salaried workforce reductions in the first quarter. The remaining $1 million primarily related to expenses associated with the closing of facilities in 2007.

Our estimate of total restructuring charges for 2008 is $26 million. This estimate includes the first and second quarter charges totaling $25 million and approximately $1 million of additional expenses that we expect to record during the second half of 2008 for approximately 15 employees who are part of our workforce reductions, but are continuing to provide services after June 30. Of the $26 million estimated amount for 2008, $14 million relates to North American Gypsum, $5 million to Building Products Distribution, $2 million to Worldwide Ceilings and $5 million to Corporate.

2007 Restructuring and Impairment Charges

In 2007, we recorded restructuring and impairment charges that totaled $26 million pretax. This amount included $18 million for salaried workforce reductions, $2 million for facility shutdowns and $6 million for asset impairments.

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Restructuring Reserve

A restructuring reserve of $13 million was included in accrued expenses on the consolidated balance sheet as of June 30, 2008. We expect all of the accrued expenses to be paid by early 2009. This reserve is summarized as follows:

(millions)	Balance as of 1/1/08	First Six Months of 2008 Charges	Cash Payments	Other Non-Cash	Balance as of 6/30/08
2008 Restructuring Activities:					
Salaried workforce reductions	$	$ 16	$ (11)	$ (1)	$ 4
Facility shutdowns		7	(4)		3
Subtotal		23	(15)	(1)	7
2007 Restructuring Activities:					
Salaried workforce reductions	$ 6	$	$ (1)	$	$ 5
Facility shutdowns	1	2	(2)		1
Subtotal	7	2	(3)		6
Total	$ 7	$ 25	$ (18)	$ (1)	$ 13

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 June 30,		Six Months ended June 30,	
(millions)	2008	2007	2008	2007
Net Sales:				
North American Gypsum	$ 625	$ 754	$ 1,243	$ 1,511
Building Products Distribution	542	654	1,032	1,158
Worldwide Ceilings	237	210	448	407
Eliminations	(153)	(210)	(307)	(409)
Total USG Corporation	$ 1,251	$ 1,408	$ 2,416	$ 2,667
Operating Profit (Loss):				
North American Gypsum	$ (56)	$ 42	$ (113)	$ 135
Building Products Distribution	7	45	6	71
Worldwide Ceilings	28	17	50	31
Corporate	(24)	(22)	(54)	(61)
Eliminations	1	6	2	7
Total USG Corporation	$ (44)	$ 88	$ (109)	$ 183

The total operating loss for the second quarter of 2008 includes restructuring charges totaling $21 million. On an operating segment basis, $9 million of the charges relates to North American Gypsum, $5 million to Building Products Distribution, $2 million to Worldwide Ceilings and $5 million to Corporate.

The total operating loss for the first six months of 2008 includes restructuring charges totaling $25 million. On an operating segment basis, $13 million of the charges relates to North American Gypsum, $5 million to Building Products Distribution, $2 million to Worldwide Ceilings and $5 million to Corporate.

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The total operating profit for the second quarter and first six months of 2007 includes restructuring and impairment charges totaling $15 million. On an operating segment basis, $12 million of the charges relate to North American Gypsum and $1 million relates to each of Building Products Distribution, Worldwide Ceilings and Corporate.
See Note 3 for information related to restructuring and impairment charges and the restructuring reserve as of June 30, 2008.

5. EARNINGS PER SHARE

Basic earnings 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 and the dilutive effect of restricted stock units, or RSUs, performance shares and outstanding stock options. The reconciliation of basic earnings per share to diluted earnings per share is shown in the following table:

(millions, except per-share and share data)	Net Earnings (Loss)	Shares (000)	Weighted Average Per-Share Amount
Three Months Ended June 30, 2008:			
Basic loss	$ (40)	99,071	$ (0.40)
Diluted loss	$ (40)	99,071	$ (0.40)
Three Months Ended June 30, 2007:			
Basic earnings	$ 56	98,933	$ 0.56
Dilutive effect of stock options		352	
Diluted earnings	$ 56	99,285	$ 0.56
Six Months Ended June 30, 2008:			
Basic loss	$ (85)	99,065	$ (0.85)
Diluted loss	$ (85)	99,065	$ (0.85)
Six Months Ended June 30, 2007:			
Basic earnings	$ 97	95,155	$ 1.01
Dilutive effect of stock options		320	
Diluted earnings	$ 97	95,475	$ 1.01

The diluted losses per share for the second quarter and first six months of 2008 were computed using the weighted average number of common shares outstanding during those periods. Options, RSUs and performance shares with respect to 3.4 million common shares for the second quarter of 2008 and 3.4 million common shares for the first six months of 2008 were not included in the computation of diluted loss per share for those periods because they were anti-dilutive.
Options, RSUs and performance shares with respect to 1.6 million common shares for the second quarter of 2007 and 1.7 million common shares for the first six months of 2007 were not included in the computation of diluted earnings per share for those periods because they were anti-dilutive.

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6. COMPREHENSIVE INCOME (LOSS)
Total comprehensive income (loss) consisted of the following:

	Three Months ended June 30,		Six Months ended June 30,	
(millions)	2008	2007	2008	2007
Net earnings (loss)	$ (40)	$ 56	$ (85)	$ 97
Gain (loss) on derivatives, net of tax	24	(7)	48	14
Gain (loss) on unrecognized pension and postretirement benefit costs, net of tax *	5	(4)	5	(3)
Foreign currency translation, net of tax	5	25	3	27
Total comprehensive income (loss)	$ (6)	$ 70	$ (29)	$ 135

* Includes the impact of the actual results of the 2007 actuarial valuations for the pension and postretirement benefit plans.

Total AOCI consisted of the following:

(millions)	As of June 30, 2008	As of December 31, 2007
Gain (loss) on derivatives, net of tax	$ 43	$ (5)
Loss on unrecognized on pension and postretirement benefit plans, net of tax	(57)	(62)
Foreign currency translation, net of tax	80	77
Unrealized loss on marketable securities, net of tax	(1)	(1)
Total AOCI	$ 65	$ 9

After-tax gains on derivatives reclassified from AOCI to earnings were $7 million during the second quarter of 2008. We estimate that we will reclassify a net $32 million after-tax gain on derivatives from AOCI to earnings within the next 12 months.

7. INVENTORIES
Total inventories consisted of the following:

(millions)	As of June 30, 2008	As of December 31, 2007
Finished goods and work in progress	$ 339	$ 290
Raw materials	77	87
Total	$ 416	$ 377

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8. GOODWILL AND OTHER INTANGIBLE ASSETS

The change in the net carrying amount of goodwill by reportable segment was as follows:

(millions)	North American Gypsum	Building Products Distribution	Worldwide Ceilings	Total
Balance as of January 1, 2008	$ 1	$ 213	$ 12	$ 226
Purchase accounting adjustment		3		3
Balance as of June 30, 2008	$ 1	$ 216	$ 12	$ 229

Other intangible assets, which are included in other assets on the condensed consolidated balance sheets, are summarized as follows:

	As of June 30, 2008			As of December 31, 2007		
(millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized Intangible Assets:						
Customer relationships	$ 70	$ 9	$ 61	$ 70	$ 6	$ 64
Other	10	3	7	10	2	8
Total Amortized Intangible Assets	80	12	68	80	8	72
Unamortized Intangible Assets:						
Trade names	66		66	66		66
Other	9		9	8		8
Total Unamortized Intangible Assets	75		75	74		74
Total Other Intangible Assets	$ 155	$ 12	$ 143	$ 154	$ 8	$ 146

Total amortization expense for other intangible assets was $4 million for the first six months of 2008. Total amortization expense was immaterial for the first six months of 2007. Estimated annual amortization expense for other intangible assets is $8 million for each of the years 2008 through 2011 and $7 million for each of the years 2012 and 2013.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we perform impairment tests for goodwill annually, or more frequently if events or circumstances indicate it might be impaired. Historically, we have performed our annual impairment test as of May 31 of each year. In the first quarter of 2008, we decided to change our annual goodwill impairment testing date from May 31 to October 31 of each year to coincide with the timing of our annual forecasting process and thus allow for the use of more current information in the goodwill impairment test. The impact (if any) of this change will be disclosed in the fourth quarter of 2008, which is the quarter in which the new testing date will take effect. We believe this change in the method of applying an accounting principle is preferable under the circumstances. We have determined that the change will not result in any adjustment to our prior period consolidated financial statements when applied retrospectively. For 2008, in order that no more than 12 months elapse between testing dates, we performed the impairment tests as of May 31 and plan to update it as of October 31. The impairment tests performed on May 31, 2008 indicated that no impairment existed. We do not anticipate that this change will result in the delay, acceleration or avoidance of recording a potential future impairment.

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9. ACQUISITIONS

We record acquisitions using the purchase method of accounting and include the results of operations of the businesses acquired in our consolidated results as of the date of acquisition. We allocate the purchase price of acquisitions to the tangible assets, liabilities and intangible assets acquired based on fair values. The excess purchase price over those fair values is recorded as goodwill. The fair value assigned to assets acquired is based on valuations using management s estimates and assumptions.

L&W Supply Corporation acquired California Wholesale Material Supply, Inc., or CALPLY, on March 30, 2007, and USG Mexico, S.A. de C.V. acquired the assets of Grupo Supremo on March 28, 2007. During the first quarter of 2008, we finalized the allocation of the purchase prices for these acquisitions with no significant change from the preliminary allocation.

The final allocation of the purchase price for CALPLY is summarized below:

(millions)		
Cash	$	4
Accounts receivable		73
Inventories		37
Property, plant and equipment		6
Goodwill		84
Other intangible assets		115
Other assets acquired		6
Total assets acquired		325
Total liabilities assumed		53
Total net assets acquired	$	272

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10. DERIVATIVE INSTRUMENTS

We use derivative instruments to manage selected commodity price and foreign currency exposures. We do not use derivative instruments for speculative trading purposes. All derivative instruments must be recorded on the balance sheet at fair value. For derivatives designated as fair value hedges, the changes in the fair values of both the derivative instrument and the hedged item are recognized in earnings in the current period. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded to accumulated other comprehensive income, or AOCI, and is reclassified to earnings when the underlying transaction has an impact on earnings. The ineffective portion of changes in the fair value of the derivative is reported in cost of products sold. For derivatives designated as net investment hedges, we record changes in value to AOCI. For derivatives not classified as fair value, cash flow or net investment hedges, all changes in market value are recorded to earnings.

Commodity Derivative Instruments

As of June 30, 2008, we had swap contracts to exchange monthly payments on notional amounts of natural gas amounting to $173 million. As of June 30, 2008, the fair value of these swap contracts, which remained in AOCI, was a $75 million pretax unrealized gain.

Foreign Exchange Derivative Instruments

We have cross-currency swaps and foreign exchange forward agreements in place to hedge changes in the value of intercompany loans to certain foreign subsidiaries due to changes in foreign exchange rates. The notional amount of these hedges is $104 million, and all contracts mature by December 29, 2009. As of June 30, 2008, the fair value of these hedges was a $5 million pretax loss that was recorded to earnings. We also have foreign currency forward agreements to hedge a portion of our net investment in certain foreign subsidiaries. The notional amount of these hedges is $48 million, and all contracts mature by June 8, 2012. As of June 30, 2008, the fair value of these hedges, which remained in AOCI, was a $1 million unrealized loss.

Counterparty Risk

We are exposed to credit losses in the event of nonperformance by the counterparties on our financial instruments. All counterparties have investment grade credit ratings; accordingly, we anticipate that these counterparties will be able to fully satisfy their obligations under the contracts. We may receive collateral from our counterparties based on the provisions in certain credit support agreements. Similarly, we may be required to post collateral under certain conditions. As of June 30, 2008, we had posted $1 million of collateral. We enter into master agreements which contain netting arrangements that minimize counterparty credit exposure.

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11. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements, which provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. The adoption of this statement had an immaterial impact on our financial statements. We also adopted the deferral provisions of FSP SFAS No. 157-2, which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also expands disclosures about instruments measured at fair value and establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices for identical assets and liabilities in active markets;

Level 2 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; and

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

When valuing our derivative portfolio, we use readily observable market data in conjunction with internally developed valuation models. Consequently, we designate our derivatives as Level 2. As of June 30, 2008, our assets and liabilities measured at fair value on a recurring basis were as follows:

(millions)	As of June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets	$ 85	$	$ 85	$
Derivative liabilities	(12)		(12)	
Marketable securities	3	3		

12. DEBT

Credit Facility

We have a credit agreement with a syndicate of banks. JPMorgan Chase Bank, N.A. serves as administrative agent under the agreement. The credit agreement consists of a $650 million unsecured revolving credit facility with a $250 million sublimit for letters of credit. This facility is available to fund working capital needs and for other general corporate purposes.

Borrowings under the credit facility bear interest, at our option, at either an alternative base rate or at LIBOR plus a margin, to be determined based on the credit facility s credit rating. Based on our current credit ratings, the margin for LIBOR borrowings is 1.275%. We are also required to pay facility fees on the entire facility, whether drawn or undrawn, and fees on outstanding letters of credit. These fees are also dependent on the credit facility s credit rating. We have the ability to repay amounts outstanding under the credit facility at any time without prepayment premium or penalty. The credit facility matures on August 2, 2012. As of June 30, 2008, the outstanding loan balance under the revolving credit facility was $147 million and we had approximately $78 million of outstanding letters of credit. We classified the $147 million borrowing under the revolving credit facility as long-term debt on our condensed consolidated balance sheet.

The credit agreement requires that we meet and maintain certain financial ratios and tests and comply with certain restrictions and conditions, including:

- through 2010, we are required to maintain aggregate liquidity of at least $300 million, including at least $100 million of cash, cash equivalents and marketable securities;

- through 2010, we are prohibited from paying a dividend on, or repurchasing, our stock if our earnings before interest, taxes, depreciation, amortization and other non-cash adjustments, or EBITDA, are below $75 million;

- through 2010, we are required to maintain specified minimum levels of EBITDA;

- our ratio of debt to total capitalization is limited to 45% in 2008, 47.5% in 2009 and 50% in 2010;

- beginning in 2010, we will be required to have a minimum interest coverage ratio (as defined in the credit agreement) starting at not less than 1.00-to-1.00 and increasing to not less than 2.00-to-1.00 in 2011; and

- beginning in 2011, we will be required to have a maximum leverage ratio (as defined in the credit agreement) of no more than 4.25-to-1.00.

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Also, our material U.S. subsidiaries will be required to guarantee our obligations under the credit facility if our senior unsecured notes are rated below their current level. The credit agreement contains other covenants and events of default that are customary for similar agreements and may limit our ability to take various actions. We were in compliance with all financial ratios, tests and covenants as of June 30, 2008.

Senior Notes

The interest rate payable on our $500 million of 7.75% senior unsecured notes maturing in January 2018 is subject to adjustment from time to time by up to 2% in the aggregate if the debt ratings assigned to the notes decrease or thereafter increase. At our current credit ratings, the interest rate on these notes is 8.0%.

13. ASSET RETIREMENT OBLIGATIONS

Changes in the liability for asset retirement obligations consisted of the following:

	Six Months Ended June 30,	
(millions)	2008	2007
Balance as of January 1	$ 85	$ 78
Accretion expense	2	2
Foreign currency translation		1
Balance as of June 30	$ 87	$ 81

14. EMPLOYEE RETIREMENT PLANS

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

	Three Months ended June 30,		Six Months ended June 30,	
(millions)	2008	2007	2008	2007
Pension:				
Service cost of benefits earned	$ 8	$ 10	$ 17	$ 20
Interest cost on projected benefit obligation	17	17	35	33
Expected return on plan assets	(19)	(18)	(39)	(36)
Net amortization	2	2	3	5
Net pension cost	$ 8	$ 11	$ 16	$ 22
Postretirement:				
Service cost of benefits earned	$ 3	$ 4	$ 7	$ 8
Interest cost on projected benefit obligation	7	6	13	12
Net amortization	(2)	(1)	(3)	(2)
Net postretirement cost	$ 8	$ 9	$ 17	$ 18

In accordance with our funding policy, we currently plan to contribute approximately $54 million to our pension plans in 2008.

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15. SHARE-BASED COMPENSATION

During the first quarter of 2008, we granted share-based compensation to eligible participants under our Long-Term Incentive Plan, or LTIP. 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 or the service period of the award for awards expected to vest. Expense is generally reduced for estimated forfeitures.

Stock Options

We granted options to purchase 926,760 shares of common stock under our LTIP during the first quarter of 2008 with an exercise price of $34.67 per share, which was the closing price of a share of USG common stock on the date of grant. The options generally become exercisable in four equal annual installments beginning one year from the date of grant, or earlier in the event of death, disability, retirement or a change in control. The options generally expire 10 years from the date of grant, or earlier in the event of death, disability or retirement.

We estimated the fair value of each stock option granted under the LTIP to be $14.78 on the date of grant using a Black-Scholes option valuation model that uses the assumptions noted below. We based expected volatility on a 50% weighting of peer volatilities and 50% weighting of implied volatility of our common stock. We did not consider historical volatility of our common stock price to be an appropriate measure of future volatility because of the impact of our Chapter 11 proceedings that concluded in 2006 on our historical stock price. The risk-free rate was based on zero coupon U.S. government issues at the time of grant. The expected term was developed using the simplified method, as permitted by the SEC s Staff Accounting Bulletin No. 110.

The assumptions used in the valuation were as follows: expected volatility 37.59%, risk-free rate 3.2%, expected term (in years) 6.25 and expected dividends 0.

Restricted Stock Units

We granted RSUs under the LTIP with respect to 130,495 shares of common stock during the first quarter of 2008. The RSUs generally vest in four equal annual installments beginning one year from the date of grant, except that 4,000 of the RSUs were granted as a special retention award that generally will vest 100% after five years. Generally, all RSUs may vest earlier in the case of death, disability, retirement or a change in control. Each RSU is settled in a share of our stock after the vesting period. The fair value of each RSU granted is equal to the closing market price of our common stock on the date of grant.

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Performance Shares

We granted 139,820 performance shares under the LTIP during the first quarter of 2008. The performance shares 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 in certain circumstances, for the three-year period. Vesting will be pro-rated based on the number of full months employed during the performance period in the case of death, disability, retirement or a change-in-control, and pro-rated awards earned will be paid at the end of the three-year period. The number of performance shares earned will vary from 0 to 200% of the number of performance shares awarded depending on that relative performance. Each performance share earned will be settled in a share of our common stock.

We estimated the fair value of each performance share granted under the LTIP to be $44.42 on the date of grant using a Monte Carlo simulation that uses the assumptions noted below. Expected volatility is based on implied volatility of our common stock. The risk-free rate was based on zero coupon U.S. government issues at the time of grant. The expected term represents the period from the grant date to the end of the performance period.

The assumptions used in the valuation were as follows: expected volatility 35.16%, risk-free rate 2.20%, expected term (in years) 2.92 and expected dividends 0.

16. INCOME TAXES

We have net operating loss, or NOL, and tax credit carryforwards in varying amounts in the U.S. and numerous state and foreign jurisdictions. In the U.S., $455 million of the federal NOL that we reported in 2006 and the $25 million of NOL that we expect to report for 2007 are being carried forward and can be an offset against federal taxable income arising in subsequent years. We also have federal tax credit carryforwards of $81 million, primarily alternative minimum tax and foreign tax credits, that can be offset against federal income tax in future years. The federal NOL can be carried forward for 20 years from the date of origin, the alternative minimum tax credits can be carried forward indefinitely and the foreign tax credits can be carried forward for 10 years from the date of origin. At the U.S. state level, much of the 2006 and 2007 state NOLs, which average $76 million per state, are being carried forward since many states do not allow the carryback of an NOL in any material amount. The 2006 and 2007 state NOLs, as well as other NOL and tax credit carryforwards arising in prior years in various state and foreign jurisdictions, will expire over periods ranging from five to 20 years from the date of origin.

We have established a valuation allowance for deferred tax assets relating to certain of our NOL and tax credit carryforwards because of uncertainty regarding their ultimate realization. During the first six months of 2008, we increased our valuation allowance for these deferred tax assets by a total of $1 million due to a change in our judgment about the realizability of the deferred tax asset relating to our U.S. state net operating loss carryforwards in future years. We continue to assess the realizability of our deferred tax assets by considering, among other factors, our forecast of future income. If the recent history of operating losses continues, we may reassess our view of the realizability of certain state net operating losses. Based on these assessments, it is possible that an increase to our valuation allowance for state net operating losses may be required in future periods. Of the total valuation allowance as of June 30, 2008, $63 million relates to U.S. state net operating loss and tax credit carryforwards and $1 million relates to federal foreign tax credit carryforwards.

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In June 2006, the FASB issued Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Tax an Interpretation of Financial Accounting Standards Board Statement No. 109. This interpretation clarifies the accounting and disclosures relating to the uncertainty about whether a tax return position will ultimately be sustained by the tax authorities. We adopted this interpretation on January 1, 2007. As part of the adoption, we recorded an increase in our liability for unrecognized tax benefits of $19 million, $18 million of which was accounted for as an increase in long-term deferred taxes and $1 million of which reduced our January 1, 2007 balance of retained earnings. There were no significant changes to the amount of our unrecognized tax benefits during the second quarter of 2008.

Our federal income tax returns for 2004 and prior years have been examined by the IRS. The U.S. federal statute of limitations remains open for the year 2003 and later years. The IRS commenced an examination of the federal income tax returns we filed for the years 2005 and 2006 and is expected to complete the examination by December 31, 2008. The IRS has not proposed any material adjustments for 2005 or 2006 as of June 30, 2008. We are also under examination in various U.S. state and foreign jurisdictions. It is possible that these examinations may be resolved within the next 12 months. Due to the potential for resolution of the IRS, state and foreign examinations and the expiration of various statutes of limitation, it is reasonably possible that our gross unrecognized tax benefits may change within the next 12 months by a range of zero to $10 million. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from three to five years.

17. LITIGATION

We are named as defendants in litigation arising from our operations, including claims and lawsuits arising from the operation of our vehicles, product warranties, personal injury and commercial disputes. We have also been notified by state and federal environmental protection agencies of possible involvement as one of numerous potentially responsible parties in a number of Superfund sites in the United States. As a potentially responsible party, we may be responsible to pay for some part of the cleanup of hazardous waste at those sites. In most of these sites, our involvement is expected to be minimal. In addition, we are involved in environmental cleanups of other property that we own or owned.

We believe that appropriate reserves have been established for our potential liability in connection with these matters, taking into account the probability of liability, whether our exposure can be reasonably estimated and, if so, our estimate of our liability or the range of our liability. However, we continue to review these accruals as additional information becomes available and revise them as appropriate. We do not expect these environmental matters or any other litigation matters involving USG to have a material adverse effect upon our results of operations, financial position or cash flows.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In the following Management s Discussion and Analysis of Financial Condition and Results of Operations, 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.

OVERVIEW

Segments

Through our subsidiaries, we are a leading manufacturer and distributor of building materials, producing a wide range of products for use in new residential, new nonresidential, and repair and remodel construction as well as products used in certain industrial processes. Our operations are organized into three reportable segments: North American Gypsum, Building Products Distribution and Worldwide Ceilings.

North American Gypsum: North American Gypsum, which manufactures and markets gypsum and related products in the United States, Canada and Mexico, includes United States Gypsum Company, or U.S. Gypsum, in the United States, the gypsum business of CGC Inc., or CGC, in Canada, and USG Mexico, S.A. de C.V., or USG Mexico, in Mexico. North American Gypsum s products are used in a variety of building applications to finish the interior walls, ceilings and floors in residential, commercial and institutional construction and in certain industrial applications. Its major product lines include SHEETROCK® brand gypsum wallboard, a line of joint compounds used for finishing wallboard joints also sold under the SHEETROCK® brand name, DUROCK® brand cement board and FIBEROCK® brand gypsum fiber panels.

Building Products Distribution: Building Products Distribution consists of L&W Supply Corporation and its subsidiaries, or L&W Supply, the leading specialty building products distribution business in the United States. It is a service-oriented business that stocks a wide range of construction materials. It delivers less-than-truckload quantities of construction materials to job sites and places them in areas where work is being done, thereby reducing the need for handling by contractors.

Worldwide Ceilings: Worldwide Ceilings, which manufactures and markets interior systems products worldwide, includes USG Interiors, Inc., or USG Interiors, the international interior systems business managed as USG International, and the ceilings business of CGC. Worldwide Ceilings is a leading supplier of interior ceilings products used primarily in commercial applications. It manufactures ceiling tile in the United States and ceiling grid in the United States, Canada, Europe and the Asia-Pacific region. It markets both ceiling tile and ceiling grid in the United States, Canada, Mexico, Europe, Latin America and the Asia-Pacific region. It also manufactures and markets joint compound in Europe, Latin America and the Asia-Pacific region and gypsum wallboard in Latin America.

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Geographic Information: In 2007, approximately 84% of our net sales were attributable to the United States. Canada accounted for approximately 8% of net sales and other foreign countries accounted for the remaining 8%.

Financial Information

Consolidated net sales in the second quarter of 2008 were $1.251 billion, down 11% from the second quarter of 2007. An operating loss of $44 million and a net loss of $40 million, or $0.40 per diluted share, were incurred in the second quarter of 2008. These results compared with operating profit of $88 million and net earnings of $56 million, or $0.56 per diluted share, in the second quarter of 2007. Results for the second quarter of 2008 included restructuring charges totaling $21 million pretax and start-up costs for new manufacturing facilities totaling $4 million pretax. Results for the second quarter of 2007 included restructuring charges of $15 million pretax. The restructuring activities in the second quarters of 2008 and 2007 primarily included salaried workforce reductions and plant shutdowns.

The steep decline in the U.S. housing market, combined with unprecedented increases in the cost of key raw materials and energy, resulted in losses in our core wallboard business. Our domestic gypsum wallboard business, which is closely tied to the new residential and home remodeling segments, has been hardest hit. Our distribution business, which serves both residential and commercial markets, has also seen sales and profitability decline due to the slowdown in its residential business. However, our ceilings business, which serves the non-residential market, reported improved sales and profits.

For the second quarter of 2008, housing starts dropped 32% compared with the second quarter of 2007. The residential repair and remodeling market softened as well. This has led to lower wallboard shipments and prices and has reduced our sales and profits compared to last year. U.S. Gypsum s shipments of SHEETROCK® brand gypsum wallboard totaled 1.9 billion square feet during the second quarter of 2008, a 21% decline compared with 2.4 billion square feet in the second quarter of 2007. U.S. Gypsum s nationwide realized selling price for SHEETROCK® brand gypsum wallboard averaged $109.81 per thousand square feet for the second quarter of 2008, a decrease of 23% compared with $141.97 in the second quarter of 2007, but an increase of 5% compared with $104.41 in the first quarter of 2008. U.S. Gypsum announced and implemented price increases on gypsum wallboard in the first and second quarters of 2008 and recently announced an increase for August. However, profitability for U.S. Gypsum continues to be adversely affected by higher manufacturing costs for gypsum wallboard largely due to higher prices for raw materials and energy and higher transportation costs due to increased freight fuel surcharges.

Market Conditions And Outlook

Industry shipments of gypsum wallboard in the United States were an estimated 6.74 billion square feet in the second quarter of 2008 compared with 8.16 billion square feet in the second quarter of 2007 and 6.87 billion square feet in the first quarter of 2008. Overall, we expect industry demand for gypsum wallboard in 2008 to be down approximately 10-15% from last year. Industry capacity utilization rates were approximately 64% during the second quarter of 2008 and are expected to remain below 70% for the full year unless the industry closes manufacturing capacity. At such a low level of capacity utilization, we may not be able to increase gypsum wallboard selling prices enough to offset higher manufacturing costs.

The housing market continues to be very challenging. New residential construction is down over 50% from the peak in 2005 and is likely to remain weak throughout 2009 as the inventory of unsold homes remains at historically high levels. We also expect declines in residential repair and remodeling expenditures and non-residential construction activity.

Since the market downturn began in 2006, we have reduced manufacturing costs by scaling back our operations to respond to these market conditions. During the second quarter of 2008, we suspended operations at our gypsum wallboard line at Ft. Dodge, Iowa, and our paper mill at Gypsum, Ohio. During the first quarter of 2008, we closed our 80-year-old Boston gypsum wallboard line. Over the course of the last eight quarters, we have announced closures and implemented curtailments totaling approximately 3.5 billion square feet of our highest cost wallboard manufacturing capacity.

As part of L&W Supply s ongoing efforts to reduce its cost structure in light of market conditions, it closed 20 locations during the first six months of 2008. During that time, the company opened three new locations in other markets.

Construction of a new, low-cost gypsum wallboard plant in Washingtonville, Pa., that will serve the northeastern United States is expected to be completed in the second half of 2008. Our new wallboard plant at Norfolk, Va., and new paper mill at Otsego, Mich., will operate at a significantly lower cost than the operations they are replacing.

In the second quarter of 2008, we implemented another salaried workforce reduction with the elimination of approximately 450 salaried positions. We will continue adjusting our operations as conditions warrant.

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Key Objectives
In order to perform as efficiently as possible during this challenging business cycle and to support our long-term growth objectives, we are continuing to focus on the following key objectives:

- extend our customer satisfaction leadership;
- achieve significant cost reductions;
- continue to invest in new, low-cost gypsum wallboard manufacturing capacity in order to maximize profits to support our long-term growth plan;
- keep the enterprise financially strong to act on selective acquisition opportunities that support our long-term vision; and
- continue to enhance financial flexibility.

CONSOLIDATED RESULTS OF OPERATIONS
The following is a summary of our consolidated statements of operations:

(dollars in millions, except per-share data)	2008	2007	% Increase (Decrease)
Three Months ended June 30:			
Net sales	$ 1,251	$ 1,408	(11)%
Cost of products sold	1,180	1,206	(2)%
Gross profit	71	202	(65)%
Selling and administrative expenses	94	99	(5)%
Restructuring charges	21	15	40%
Operating profit (loss)	(44)	88	
Interest expense	21	19	11%
Interest income	(1)	(5)	(80)%
Other income, net		(2)	
Income tax expense (benefit)	(24)	20	
Net earnings (loss)	(40)	56	
Diluted earnings (loss) per share	(0.40)	0.56	
Six Months ended June 30:			
Net sales	$ 2,416	$ 2,667	(9)%
Cost of products sold	2,304	2,253	2%
Gross profit	112	414	(73)%
Selling and administrative expenses	196	216	(9)%
Restructuring charges	25	15	67%
Operating profit (loss)	(109)	183	
Interest expense	38	63	(40)%
Interest income	(3)	(13)	(77)%
Other income, net	(1)	(2)	(50)%
Income tax expense (benefit)	(58)	38	
Net earnings (loss)	(85)	97	
Diluted earnings (loss) per share	(0.85)	1.01	

Net Sales

Consolidated net sales in the second quarter and first six months of 2008 declined 11% and 9% from the respective 2007 periods primarily due to decreased demand for building products and lower selling prices for gypsum wallboard. As explained below under Core Business Results of Operations, net sales in the second quarter and first six months of 2008 for North American Gypsum and Building Products Distribution decreased compared with the same periods in 2007. Net sales in the second quarter and first six months of 2008 for Worldwide Ceilings improved compared with the respective prior-year periods.

Cost of Products Sold

Cost of products sold in the second quarter of 2008 was down 2% from the second quarter of 2007 primarily due to lower volume for gypsum wallboard and ceiling tile, partially offset by higher manufacturing costs, particularly for energy and raw materials. For the first six months of 2008, cost of products sold increased 2% compared with the first six months of 2007 primarily due to higher manufacturing costs. In addition, cost of products sold in 2008 included charges totaling $4 million in the second quarter and $16 million in the first six months for start-up costs for our new gypsum wallboard plants in Washingtonville, Pa., and Norfolk, Va., and our new paper mill in Otsego, Mich.

Gross Profit

Gross profit for the second quarter and first six months of 2008 decreased 65% and 73% compared with the respective 2007 periods primarily due to lower shipments and selling prices and higher manufacturing costs for gypsum wallboard. The gross margin percentage was 5.7% in the second quarter of 2008, down from 14.3% in the second quarter of 2007. For the first six months of 2008, the gross margin percentage was 4.6%, down from 15.5% for the prior-year period.

Selling and Administrative Expenses

Selling and administrative expenses for the second quarter and first six months of 2008 decreased 5% and 9% compared with the respective 2007 periods primarily due to a company-wide emphasis on reducing expenses, including salaried workforce reductions. As a percent of consolidated net sales, selling and administrative expenses were 7.5% for the second quarter of 2008 and 8.1% for the first six months of 2008 compared with 7.0% for the second quarter of 2007 and 8.1% for the first six months of 2007.

Restructuring and Impairment Charges

Restructuring charges in the second quarter of 2008 of $21 million included $15 million for salaried workforce reductions. The number of employees terminated and open positions eliminated during the second quarter as a result of these reductions was approximately 450. Charges of $5 million related to the closure of distribution locations and additional expenses associated with manufacturing facilities that were shut down in the first quarter of 2008. The remaining $1 million primarily related to expenses associated with the closing of facilities in 2007.

Total restructuring charges during the first six months of 2008 were $25 million pretax. This amount included the $21 million of charges described above for the second quarter and $4 million of charges recorded in the first quarter of 2008 primarily related to severance and facility shutdowns.

In the second quarter of 2007, we recorded restructuring and impairment charges totaling $15 million pretax primarily related to severance and a facility shutdown.

See Note 3 to the Condensed Consolidated Financial Statements for additional information related to restructuring and impairment charges and the restructuring reserve as of June 30, 2008.

Interest Expense

Interest expense was $21 million for the second quarter of 2008 compared with $19 million for the second quarter of 2007. For the first six months of 2008, interest expense was $38 million compared with $63 million for the first six months of 2007. Interest expense was higher for the first six months of 2007 due to a higher average level of borrowings as well as a $10 million pretax charge to write off deferred financing fees related primarily to our repayment of a $1.065 billion tax bridge loan in March 2007.

Income Tax Expense (Benefit)

An income tax benefit of $24 million was recorded for the second quarter of 2008. Income tax expense was $20 million for the second quarter of 2007. The effective tax rates were 37.0% and 26.7% for the respective periods. An income tax benefit of $58 million was recorded for the first six months of 2008 compared with income tax expense of $38 million for the corresponding 2007 period. The effective tax rates were 40.7% for the first six months of 2008 and 28.2% for the first six months of 2007.

The 2008 tax benefits result from our anticipated carryforward of most of the loss in the second quarter of 2008 to offset U.S. state and federal income taxes in future years. The higher effective tax rates in 2008 is a result of the relative weightings of the loss in 2008 and the income in 2007 between the U.S., with a higher total tax rate, and lower taxed foreign jurisdictions. In addition, first quarter 2007 results included a $6.6 million favorable tax adjustment resulting from a correction of the December 31, 2006 deferred tax balances and second quarter 2007 results included the favorable impact of several state tax law changes.

Net Earnings (Loss)

A net loss of $40 million, or $0.40 per diluted share, was recorded for the second quarter of 2008. The net loss for the first six months of 2008 was $85 million, or $0.85 per diluted share. These results compare with net earnings of $56 million, or $0.56 per diluted share, in the second quarter of 2007 and $97 million, or $1.01 per diluted share, in the first six months of 2007.

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CORE BUSINESS RESULTS OF OPERATIONS

	Three Months ended June 30,		Six Months ended June 30,	
(millions)	2008	2007	2008	2007
Net Sales:				
North American Gypsum:				
United States Gypsum Company	$ 510	$ 655	$ 1,024	$ 1,316
CGC Inc. (gypsum)	90	79	174	156
USG Mexico, S.A. de C.V.	54	47	101	90
Other *	22	22	38	39
Eliminations	(51)	(49)	(94)	(90)
Total	625	754	1,243	1,511

Building Products Distribution:
L&W Supply Corporati