

USG CORP
Form 10-Q
October 22, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 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 (I.R.S. Employer
incorporation or organization) 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 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 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 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 No

The number of shares of the registrant's common stock outstanding as of September 30, 2015 was 145,645,279.

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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		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$972	\$972	\$2,851	\$2,770
Cost of products sold	789	796	2,332	2,276
Gross profit	183	176	519	494
Selling and administrative expenses	81	76	237	230
Litigation settlement charge	—	48	—	48
Long-lived asset impairment charges	—	30	—	30
Gain on disposal of shipping operations, net	—	—	(1) —
Operating profit	102	22	283	186
Income from equity method investments	13	12	35	20
Interest expense	(40	) (43	) (123	) (135
Interest income	—	—	1	1
Loss on extinguishment of debt	—	—	(19) —
Gain on deconsolidation of subsidiaries and consolidated joint ventures	—	—	—	27
Income (loss) from continuing operations before income taxes	75	(9	) 177	99
Income tax benefit (expense)	1	(2	) 2	(7
Income (loss) from continuing operations	76	(11	) 179	92
Loss from discontinued operations, net of tax	—	—	—	(1
Net income (loss)	76	(11	) 179	91
Less: Net income attributable to noncontrolling interest	—	1	—	1
Net income (loss) attributable to USG	\$76	\$(12	) \$179	\$90
Earnings (loss) per common share - basic:				
Income (loss) from continuing operations	\$0.52	\$(0.09	) \$1.23	\$0.65
Loss from discontinued operations	—	—	—	(0.01
Net income (loss)	\$0.52	\$(0.09	) \$1.23	\$0.64
Earnings (loss) per common share - diluted:				
Income (loss) from continuing operations	\$0.52	\$(0.09	) \$1.21	\$0.63
Loss from discontinued operations	—	—	—	(0.01
Net income (loss)	\$0.52	\$(0.09	) \$1.21	\$0.62
Average common shares	145,569,692	144,646,284	145,421,798	140,944,207
Average diluted common shares	147,534,779	144,646,284	147,223,897	147,087,399
See accompanying Notes to Consolidated Financial Statements.				

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

(millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income (loss)	\$76	\$(11)	) \$179	\$91
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 of \$1, \$1, \$1, and \$1, respectively	—	(1)	) (1)	) 1
Less: Reclassification adjustment for gain (loss) on derivatives included in net income, net of tax of \$0 in all periods	(2)	) 1	(7)	) 4
Net derivatives qualifying as cash flow hedges	2	(2)	) 6	(3)
Pension and postretirement benefits:				
Changes in pension and postretirement benefits, net of tax of \$1, \$1, \$2, and \$2, respectively	4	3	2	(6)
Less: Amortization of prior service credit (cost) included in net periodic pension cost, net of tax (benefit) of \$0, \$0, (\$1) and (\$1), respectively	(3)	) 3	(6)	) 9
Net pension and postretirement benefits	7	—	8	(15)
Foreign currency translation:				
Changes in foreign currency translation, net of tax of \$0 in all periods	(52)	) (39)	) (91)	) (28)
Less: Translation gains realized upon the deconsolidation of foreign subsidiaries, net of tax of \$0 in all periods	—	—	—	5
Net foreign currency translation	(52)	) (39)	) (91)	) (33)
Other comprehensive loss, net of tax	\$(43)	) \$(41)	) \$(77)	) \$(51)
Comprehensive income (loss)	\$33	\$(52)) \$102	\$40

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(millions, except share and per share data)	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	\$ 333	\$ 228
Short-term marketable securities	89	96
Restricted cash	9	1
Receivables (net of reserves - \$21 and \$22)	432	404
Inventories	316	329
Income taxes receivable	5	3
Deferred income taxes	43	43
Other current assets	86	48
Total current assets	1,313	1,152
Long-term marketable securities	28	58
Property, plant and equipment (net of accumulated depreciation and depletion - \$1,944 and \$1,885)	1,806	1,908
Deferred income taxes	15	19
Equity method investments	657	735
Other assets	118	122
Total assets	\$ 3,937	\$ 3,994
Liabilities and Stockholders' Equity		
Accounts payable	\$ 251	\$ 290
Accrued expenses	207	220
Current portion of long-term debt	—	4
Deferred income taxes	2	—
Income taxes payable	3	1
Litigation settlement accrual	9	48
Total current liabilities	472	563
Long-term debt	2,188	2,205
Deferred income taxes	60	61
Pension and other postretirement benefits	453	491
Other liabilities	248	266
Total liabilities	3,421	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 - 145,645,000 shares; 2014 - 144,768,000 shares	15	14
Additional paid-in capital	3,022	3,014
Accumulated other comprehensive loss	(415	) (338
Retained earnings (accumulated deficit)	(2,106	) (2,283
Stockholders' equity of parent	516	407
Noncontrolling interest	—	1
Total stockholders' equity including noncontrolling interest	516	408
Total liabilities and stockholders' equity	\$ 3,937	\$ 3,994
See accompanying Notes to Consolidated Financial Statements.		

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USG CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)	Nine months ended	
	September 30, 2015	2014
Operating Activities		
Net income	\$ 179	\$ 91
Less: Loss from discontinued operations, net of tax	—	(1
Income from continuing operations	179	92
Adjustments to reconcile net income to net cash:		
Depreciation, depletion and amortization	108	115
Loss on extinguishment of debt	19	—
Litigation settlement charge	—	48
Long-lived asset impairment charges	—	30
Share-based compensation expense	10	16
Deferred income taxes	1	4
Gain on asset dispositions	(7	) (12
Income from equity method investments	(35	) (20
Dividends received from equity method investments	18	—
Pension settlement	(1) —
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	(35	) (70
Income taxes receivable	(3	) (1
Inventories	13	(6
Other current assets	2	(1
Payables	(25	) (16
Accrued expenses	(65	) (6
Decrease in other assets	4	—
Decrease in pension and other postretirement benefits	(33	) (48
Decrease in other liabilities	(10	) (12
Other, net	13	(6
Net cash provided by operating activities	\$ 153	\$ 80
Investing Activities		
Purchases of marketable securities	(96	) (126
Sales or maturities of marketable securities	132	166
Capital expenditures	(72	) (88
Net proceeds from asset dispositions	45	14
Investment in joint ventures, including \$23 of cash of contributed subsidiaries in 2014	—	(558
Insurance proceeds	2	3
Return (deposit) of restricted cash	(8) 4
Net cash provided by (used for) investing activities	\$ 3	\$ (585

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Financing Activities			
Issuance of debt	350	3	
Repayment of debt	(386) (62)
Payment of debt issuance fees	(6) —	
Issuance of common stock	6	4	
Repurchases of common stock to satisfy employee tax withholding obligations	(8	) (7)
Net cash used for financing activities	\$(44	) \$(62)
Effect of exchange rate changes on cash	(7	) (2)
Net cash used for operating activities - discontinued operations	—	(1)
Net increase (decrease) in cash and cash equivalents	\$105	\$(570)
Cash and cash equivalents at beginning of period	228	810	
Cash and cash equivalents at end of period	\$333	\$240	
Supplemental Cash Flow Disclosures:			
Interest paid, net of capitalized interest	\$128	\$127	
Income taxes paid, net	2	9	
Noncash Investing and Financing Activities:			
Amount in accounts payable for capital expenditures	6	7	
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 nine months ended September 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, seven months of results of UBBP were recorded in our accompanying consolidated statement of operations for the nine months ended September 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, which we have exited. 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 July 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standard Update, or ASU, 2015-11, "Simplifying the Measurement of Inventory", which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value for entities that measure inventory using the first-in, first-out (FIFO) or average cost method. The ASU defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The standard will be effective for us in the first quarter of 2017, with early adoption permitted. We are evaluating the effect of adopting this standard, but we do not expect the adoption of ASU 2015-11 will have a significant impact to

our consolidated financial statements or disclosures.

In May 2015, the FASB issued 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

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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. In August 2015, the FASB issued ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements", which clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset, regardless of whether there are any outstanding borrowings on the line-of-credit. The standards will be effective for us in the first quarter of 2016, with early adoption permitted. We plan to early adopt the standards as of December 31, 2015. Upon adoption, we would reclassify our deferred debt issuance costs associated with our long-term debt other than our line-of-credit from other assets to long term debt. If adopted as of September 30, 2015, we would have recorded a reduction in both other assets and long-term debt of \$14 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 August 2015, the FASB issued ASU 2015-14 which defers 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 September 30, 2015 and December 31, 2014, were as follows:

(dollars in millions)	September 30, 2015		December 31, 2014	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
USG Boral Building Products	\$650	50%	\$689	50%
Other equity method investments (a)	44	33% - 50%	46	33% - 50%
Total equity method investments	\$694		\$735	

(a) This amount includes our investment in Knauf-USG of \$37 million which as of September 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 15, and (iii) granted to UBBP licenses to use certain of our intellectual property rights in the Territory.

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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. We have not recorded a liability for the second earnout payment as we have concluded that it is currently not probable that the five-year performance target will be achieved. If our conclusion on the probability of achievement were to change, we will record a liability representing the present value of the second earnout payment with a corresponding increase to our investment. As of September 30, 2015 and December 31, 2014, our liability for the earnout payments totaled \$24 million and \$23 million, respectively, and is included in other liabilities on our accompanying consolidated balance sheets.

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 nine months ended September 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:

(in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Translation loss	\$(35)	\$(24)	\$(54)	\$(13)

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 first earnout payment described above. As of September 30, 2015, the amount of consolidated retained earnings which represents undistributed earnings from UBBP is \$48 million.

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

(in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014 (a)
USG Boral Building Products:				
Net sales	\$250	\$286	\$742	\$655
Gross profit	69	77	200	179
Operating profit	30	31	87	57
Income from continuing operations	25	25	71	42
Net income	25	25	71	42
Net income attributable to USG Boral Building Products	24	24	66	39
USG share of income from investment accounted for using the equity method	12	12	33	19
Other equity method investments:				
USG share of income from investments accounted for using the equity method	1	—	2	1

Total income from equity method investments	13	12	35	20
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(a) Operating results are presented for UBBP for the seven months ended September 30, 2014.

Investment in Knauf-USG

On September 15, 2015, we entered into an agreement to sell our 50% interest in the Knauf-USG joint venture to our 50/50 joint venture partner, Knauf Aquapanel GmbH, a subsidiary of Gebr. Knauf Verwaltungsgesellschaft KG (Knauf) for

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€48 million in cash, approximately \$54 million (as calculated using the exchange rate as of September 30, 2015). The Knauf-USG joint venture manufactures and distributes Aquapanel® brand cement-based panels in Europe (excluding Turkey) and all countries that were part of the former Soviet Union. Affiliates of Knauf are the beneficial owners of approximately 10% of USG's outstanding shares of common stock.

The sale is expected to close in the fourth quarter of 2015 pending regulatory approval. Upon close of the sale, we anticipate recording a net gain in the range of \$3 million to \$7 million on disposition.

During the second quarter of 2015, our investment in the Knauf-USG joint venture met the criteria for asset held for sale. Accordingly, we have recorded our investment of \$37 million as asset held for sale in other current assets on the consolidated balance sheet as of September 30, 2015. Our equity method income in the Knauf-USG joint venture was \$2 million for both the nine months ended September 30, 2015 and 2014, respectively.

3. Long-Lived Asset Impairment Charges

Since 2007, we have continuously evaluated our manufacturing needs by considering the capacity of existing and idled plants and production lines, as well as capital projects for manufacturing facilities, relative to the demand assumptions included in our long-range plan. Although industry and economic factors have improved and we believe that the overall economic recovery is intact, they are improving at a slower pace than expected, requiring us to reconsider the future utilization of idled plants and production lines, and capital projects for manufacturing facilities. As a result, in the third quarter of 2014, we recorded asset impairment charges totaling \$30 million, which includes the following:

- (a) \$16 million related to the carrying values of machinery, equipment and buildings at our temporarily idled gypsum quarry and wallboard production facility in Empire, Nevada and at our previously idled and now permanently closed gypsum wallboard line in New Orleans, Louisiana. In addition, in the third quarter 2014 we permanently closed our wallboard line in Detroit, Michigan. No impairment charge was recorded with respect to our wallboard line in Detroit, Michigan, as these assets were previously impaired at the time the plant was originally idled.
- (b) \$12 million related to previously incurred and capitalized costs for the construction of two future facilities which we do not anticipate will be built within our planning horizon.
- (c) \$2 million related to the carrying values of machinery, equipment and buildings at our previously idled and now permanently closed paper production line in Gypsum, Ohio.

The carrying values of the machinery, equipment and buildings at our temporarily idled facility in Empire, Nevada exceeded the estimated future undiscounted cash flows for the remaining useful lives of the assets due to slower than expected acceleration in the markets served by this facility and our forecasts regarding the timing and future rate of recovery in those markets. Based on these conditions, we do not anticipate that the carrying values of the assets at this facility would be recovered prior to end of the assets' useful lives, and therefore fully impaired these assets. For the production line in Gypsum, Ohio that we deemed to be permanently closed, we fully impaired the long-lived assets specific to those lines.

The long-lived asset impairment charges relate solely to our Gypsum segment.

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4. Segments

Our operations are organized into four reportable segments: Gypsum, Ceilings, Distribution and UBBP. See Note 2 for segment results for UBBP. Segment results for our Gypsum, Ceilings and Distribution segments were as follows:

(millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014 (c)
Net Sales:				
Gypsum	\$610	\$621	\$1,804	\$1,778
Ceilings ^(a)	130	137	384	392
Distribution	378	359	1,076	1,003
Eliminations	(146	) (145	) (413	) (403
Total	\$972	\$972	\$2,851	\$2,770
Operating Profit (Loss):				
Gypsum ^(b)	\$89	\$12	\$255	\$172
Ceilings ^(a)	24	30	70	69
Distribution	9	4	22	9
Corporate	(25	) (23	) (72	) (65
Eliminations	5	(1	) 8	1
Total	\$102	\$22	\$283	\$186

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

Gypsum's operating profit for both the three and nine months ended September 30, 2014 included long-lived asset (b) impairment charges of \$30 million and a litigation settlement charge of \$48 million. See notes 3 and 17, respectively.

(c) 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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5. Earnings (Loss) Per Share

Basic earnings (loss) per share is based on the weighted average number of common shares outstanding. Diluted earnings (loss) 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 April 2014.

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

(millions, except per-share data)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Income (loss) from continuing operations	\$76	\$(11)	) \$179	\$92
Less: Net income attributable to noncontrolling interest	—	1	—	1
Income (loss) from continuing operations attributable to USG	76	(12)	) 179	91
Loss from discontinued operations	—	—	—	(1)
Net income (loss) attributable to USG	76	(12)	) 179	90
Effect of dilutive securities - 10% convertible senior notes	—	—	—	2
Income (loss) available to shareholders	\$76	\$(12)	) \$179	\$92
Average common shares	145.6	144.6	145.4	140.9
Dilutive RSUs, MSUs, performance shares and stock options	1.8	—		