CASCADE CORP
Form 8-K
December 14, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **December 9, 2004**

CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

Oregon	**1-12557**	**93-0136592**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

2201 N.E. 201st Avenue

Fairview, Oregon 97024-9718

(Address of principal executive offices and zip code)

(503) 669-6300

Registrant s telephone number, including area code

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On December 9, 2004, Cascade Corporation issued a press release announcing results for its third fiscal quarter ended October 31, 2004, and held a conference call regarding the results. The press release is included as Exhibit 99.1 and the transcript is included as Exhibit 99.2 to this Form 8-K. This discussion, as well as the press release and the transcript, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits. The following exhibits are included with this report:

99.1 Press release issued on December 9, 2004.

99.2 Transcript of conference call held on December 9, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Cascade Corporation

By: /s/ JOSEPH G. POINTER
Joseph G. Pointer
Secretary

Dated: December 14, 2004

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de the presence of the Chairman and other non-independent directors, if any. Our lead independent director is selected on an annual basis by a majority of the independent directors then serving on our Board of Directors.

Our Lead Independent Director Charter sets forth a complete description of the lead director's responsibilities. In general, the lead director is responsible for:

- serving as liaison between the Chairman and our other independent directors;
- calling and presiding at executive sessions of the independent directors;
- serving as the focal point of communication to the Board of Directors regarding management plans and initiatives;
- ensuring that the management adheres to the Board of Directors' oversight role over management operations;
- providing the medium for informal dialogue with and between independent directors, allowing for free and open communication within that group; and

serving as the communication conduit for third parties who wish to communicate with our Board of Directors.

In addition to these specific duties, we expect the lead independent director to familiarize himself with the Company and the real estate investment trust and healthcare industries in general. He also is expected to keep abreast of developments in the principles of sound corporate governance.

The Board's Role in Risk Oversight

One of the key functions of our Board of Directors is to provide oversight of our risk management process. Our Board of Directors administers this oversight function directly, with support from its three standing committees the Audit Committee, the Compensation Committee, and the Corporate Governance Committee each of which addresses risks specific to their respective areas of oversight. In particular, our Audit Committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. The Audit Committee also monitors compliance with legal and regulatory requirements and has oversight of the performance of our internal audit function. Our Compensation Committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking. Our Corporate Governance Committee monitors the effectiveness of our corporate governance guidelines, including whether they are successful in preventing illegal or improper liability-creating conduct.

Each committee meets regularly with management to assist it in identifying all of the risks within such committee's areas of responsibility and in monitoring and, where necessary, taking appropriate action to mitigate the applicable risks. At each Board meeting, the committee chairman provides a report to the full Board on issues related to such committee's risk oversight duties. To the extent that any risks reported to the full Board need to be discussed outside the presence of management, the Board will call an executive session to discuss these issues.

We believe the Board's approach to fulfilling its risk oversight responsibilities complements its leadership structure. In his capacity as chairman of the Board, Mr. Wallace reviews whether Board committees are addressing their risk oversight duties in a comprehensive and timely manner. Since he is also our Chief Executive Officer, Mr. Wallace is able to assist these committees in fulfilling their duties by (1) requiring that our management team provide these committees with all requested reports and other information as well as with access to our employees and (2) implementing recommendations of the various Board committees to mitigate risk. At the same time, Mr. Gardner, as our lead independent director, is able to lead an independent review of the risk assessments developed by management and reported to the committees.

Our Board held five meetings during 2017. In 2017, our directors attended all of our Board meetings as well as all of the meetings of the committees on which they served. The members who are "independent directors" under NYSE Rule 303A.02 met in executive session four times during 2017.

We do not have a policy requiring director attendance at our annual meeting. All of our directors attended our 2017 annual stockholder meeting, other than Mr. Van Horn.

Committees of the Board of Directors

Our Board of Directors has three standing committees: an Audit Committee, a Compensation Committee and a Corporate Governance Committee. The principal functions of each committee are described below. We currently comply, and we intend to continue to comply, with the listing requirements and other rules and regulations of the NYSE and each of these committees are comprised exclusively of independent directors. Additionally, our Board of Directors may from time to time establish certain other committees to facilitate the management of our Company.

Audit Committee

Prior to our annual meeting, our Audit Committee consisted of Messrs. Gardner, Hensley, and Lumsdaine, all of whom are independent directors, with Mr. Hensley serving as chairman. Assuming that all of our nominees for director are elected at our annual meeting, there will be three members of the Audit Committee: Mr. Gardner, Ms. Gulmi, and Mr. Hensley, all of whom are independent directors, with Mr. Hensley serving as the chairman. Ms. Gulmi and Mr. Hensley each qualify as an "audit committee financial expert" as that term is defined by the applicable SEC regulations and NYSE corporate governance listing standards. Our Board of Directors has determined that each of the proposed Audit Committee members is "financially literate" as that term is defined by the NYSE corporate governance listing standards. We have adopted an Audit Committee Charter, which details the principal functions of the Audit Committee, including oversight related to:

- our accounting and financial reporting processes;
- the integrity of our consolidated financial statements and financial reporting process;
- our systems of disclosure controls and procedures and internal control over financial reporting;
- our compliance with financial, legal and regulatory requirements;
- the evaluation of the qualifications, independence and performance of our independent registered public accounting firm;
- reviewing the adequacy of our Audit Committee Charter on an annual basis;
- the performance of our internal audit function; and

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our overall risk profile.

The Audit Committee is also responsible for engaging an independent registered public accounting firm, reviewing with the independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent registered accounting firm, including all audit and non-audit services, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls.

The Audit Committee met five times in 2017. A copy of the charter of our Audit Committee is available on the investor relations webpage of our website, *http://investors.chct.reit*.

Compensation Committee

Prior to our annual meeting, our Compensation Committee consisted of Messrs. Gardner, Lumsdaine, and Van Horn, all of whom are "independent directors" as defined in NYSE Rule 303A.02, with Mr. Lumsdaine serving as chairman. Assuming that all of our nominees for director are elected, after the annual meeting there will be three members of the Compensation Committee: Mr. Gardner, Ms. Gulmi, and Mr. Van Horn, all of whom are "independent directors" as defined in NYSE Rule 303A.02, with Ms. Gulmi serving as chairman. Further, each current and proposed member of the Compensation Committee is a "non-employee director" as defined in Rule 16b-3 promulgated under the Exchange Act. We have adopted a Compensation Committee Charter, which details the principal functions of the Compensation Committee, including:

- reviewing and recommending to our Board of Directors on an annual basis the corporate goals and objectives relevant to our chief executive officer's compensation, evaluating our chief executive officer's performance in light of such goals and objectives and determining and approving the remuneration of our chief executive officer based on such evaluation;

- reviewing and recommending to our Board of Directors the compensation, if any, of all of our other executive officers;

- evaluating our executive compensation policies and plans;

- assisting management in complying with our proxy statement and annual report disclosure requirements;

- administering our incentive plans;

- reviewing and recommending to our Board of Directors policies with respect to incentive compensation and equity compensation arrangements;

- reviewing the competitiveness of our executive compensation programs and evaluating the effectiveness of our compensation policy and strategy in achieving expected benefits to us;

- evaluating and overseeing risks associated with compensation policies and practices;

- reviewing and recommending to our Board of Directors the terms of any employment agreements, severance arrangements change in control protections and any other compensatory arrangements for our executive officers;

- reviewing the adequacy of its Compensation Committee Charter on an annual basis;

producing a report on executive compensation to be included in our annual proxy statement as required; and

reviewing, evaluating and recommending changes, if appropriate, to the remuneration for directors.

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The Compensation Committee met three times in 2017. A copy of the charter of our Compensation Committee is available on the investor relations webpage of our website, *http://investors.chct.reit*.

Corporate Governance Committee

Prior to our annual meeting, our Corporate Governance Committee consists of Messrs. Gardner, Hensley, and Van Horn, all of whom are "independent directors" as defined in NYSE Rule 303A.02, with Mr. Van Horn serving as chairman. Assuming that all of our nominees for director are elected at our annual meeting, the members and chairman of the Corporate Governance Committee will remain the same. We have adopted a Corporate Governance Committee charter, which details the principal functions of the Corporate Governance Committee, including:

- identifying, evaluating and recommending to the full Board of Directors qualified candidates for election as directors and recommending nominees for election as directors at the annual meeting of stockholders;
- developing and recommending to the Board of Directors corporate governance guidelines and implementing and monitoring such guidelines;
- reviewing and making recommendations on matters involving the general operation of the Board of Directors, including Board size and composition, and committee composition and structure;
- evaluating and recommending to the Board of Directors nominees for each committee of the Board of Directors;
- annually facilitating the assessment of the Board of Directors' performance as a whole and of the individual directors, as required by applicable law, regulations and the NYSE corporate governance listing standards;
- considering nominations by stockholders of candidates for election to our Board of Directors;
- considering and assessing the independence of members of our Board of Directors;
- developing, as appropriate, a set of corporate governance principles, and reviewing and recommending to our Board of Directors any changes to such principles;
- periodically reviewing our policy statements; and
- reviewing, at least annually, the adequacy of its Corporate Governance Committee Charter.

When evaluating director candidates, the Corporate Governance Committee's objective is to craft a Board composed of individuals with a broad and diverse mix of backgrounds and experiences and possessing, as a whole, all of the skills and expertise necessary to guide a company like us in the prevailing business environment. The Corporate Governance Committee uses the same criteria to assess all candidates for director, regardless of who proposed the candidate. The Corporate Governance Committee considers whether the candidate possesses the following qualifications and qualities:

- independence for purposes of the NYSE rules and SEC rules and regulations, and a record of honest and ethical conduct and personal integrity;

experience in the healthcare, real estate and/or public real estate investment trust industry or in finance, accounting, legal or other professional disciplines;

ability to represent the interests of all of our stockholders; and

ability to devote time to the Board of Directors and to enhance their knowledge of our industry.

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The Corporate Governance Committee met one time in 2017. A copy of the charter of the Corporate Governance Committee is available on the investor relations webpage of our website, *http://investors.chct.reit*. Our Corporate Governance Guidelines and Code of Ethics and Business Conduct are also available on the investor relations webpage of our website, *http://investors.chct.reit*. If we make any substantive amendment to the Code of Ethics and Business Conduct or grant any waiver, including any implicit waiver, from a provision of the Code of Ethics and Business Conduct to certain executive officers, we are obligated to disclose the nature of such amendment or waiver, the name of the person to whom any waiver was granted, and the date of waiver on our website or in a report on Form 8-K filed with the SEC.

Usually, nominees for election to the Board are proposed by the current members of the Board. The Corporate Governance Committee will also consider candidates that stockholders and others recommend. Stockholder recommendations should be addressed to: W. Page Barnes, Corporate Secretary, 3326 Aspen Grove Drive, Suite 150, Franklin, Tennessee 37067. Your recommendations must be submitted to us no earlier than November 4, 2018, nor later than 5:00 p.m., Eastern Time on December 3, 2018, for consideration as a possible nominee for election to the Board at our 2019 annual meeting.

The Board has not adopted a formal procedure that you must follow to send communications to it, but it does have informal procedures, described below, which it believes adequately facilitate stockholder and other interested party communications with the Board. Stockholders and other interested parties can send communications to the Board by contacting W. Page Barnes, our Corporate Secretary, in one of the following ways:

By writing to Community Healthcare Trust Incorporated, 3326 Aspen Grove Drive, Suite 150, Franklin, Tennessee, 37067, Attention: Corporate Secretary;

By e-mail to investorrelations@chct.reit; or

By phone at 615-771-3052.

If you request information or ask questions that can be more efficiently addressed by management, Mr. Barnes will respond to your questions instead of the Board. He will forward to the Audit Committee any communication concerning employee fraud or accounting matters and will forward to the full Board any communication relating to corporate governance or those requiring action by the Board of Directors. A stockholder may communicate directly with Mr. Gardner, the lead independent director, by sending a confidential letter address to his attention at 3326 Aspen Grove Drive, Suite 150, Franklin, Tennessee, 37067.

Director Compensation

The Compensation Committee recommends the compensation for our non-employee directors; our full Board approves or modifies the recommendation. Any modifications are implemented after the annual meeting. Directors who are also our employees receive no additional compensation for their service as directors, but they are reimbursed for any direct expenses incurred to attend our meetings. Annual compensation of non-employee directors may be a combination of cash and restricted stock at levels set by the Compensation Committee.

The Compensation Committee retained FPL Advisory Group ("FPL") as its independent compensation consultant in 2017 to advise it regarding market trends and practices in director compensation and with respect to specific compensation decisions. The Compensation Committee expects to meet every three years with a compensation consultant to discuss director compensation trends. The consultant may also attend Compensation Committee meetings periodically. FPL met with the chair of the Compensation Committee and provided a report to the Compensation Committee in 2017, during and in which it provided a review of recent trends and developments in director

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compensation practices within the Company's industry and in general. FPL received a fee of $15,000 for its compensation consulting services provided to the Compensation Committee in 2017 with respect to director compensation, as well as an $800 administrative fee.

Cash compensation

Each non-employee director receives an annual retainer, with chairpersons of our board committees and the lead director receiving additional annual retainers. The annual retainer is earned at the annual meeting of our stockholders. Director compensation may be adjusted by the Compensation Committee based on an evaluation of director compensation at peer companies, and, in February 2018, the Compensation Committee approved an increase in the annual cash retainer from $25,000 to $40,000 per year, beginning with the retainer earned at the 2018 annual meeting.

At the 2017 annual meeting, the chairpersons of the Audit Committee, the Compensation Committee and the Corporate Governance Committee received additional annual retainers of $10,000, $7,500 and $7,500, respectively, and the lead independent director received an additional annual retainer of $10,000. In February 2018, the Compensation Committee approved an increase in these additional retainers, beginning with the 2018 annual meeting. The chairpersons of the Audit Committee, the Compensation Committee and the Corporate Governance Committee will receive annual retainers of $15,000, $10,000 and $10,000, respectively, for their services as chairpersons, and the lead independent director will receive an annual retainer of $17,500 for his service as lead director.

Each year, non-employee directors may elect to take all or a portion of each of their retainers and other cash compensation in the form of restricted stock. The number of shares of restricted stock to be acquired will be determined as of the 15th business day following the date of our annual meeting of stockholders by dividing the total of the director's elected reduced annual retainer by the average price of the common stock for the 10 trading days immediately preceding the determination date. Payments of restricted stock in lieu of an annual retainer otherwise payable in cash will be made thereafter. Pursuant to the Company's Amended and Restated Alignment of Interest Program (the "Restated Alignment Program"), each director who makes this election will be awarded additional shares, at no additional cost to the director, according to the following multiples:

Duration of Restriction Period	Restriction Multiple
1 year	0.2x
2 years	0.4x
3 years	0.6x

The restriction period subjects the shares obtained by the cash deferral and the restriction multiple to the risk of forfeiture in the event that a director voluntarily resigns or is removed by the stockholders for any reason during the year for which the director received compensation. During the restricted period, the restricted shares may not be sold, assigned, pledged or otherwise transferred. Accordingly, for example, if a non-employee director elects to receive stock compensation in lieu of cash compensation that is equivalent in value to 1,000 shares of common stock and the director elected a three-year restriction period for such stock compensation, the non-employee director would receive the 1,000 shares of restricted common stock in lieu of the director's cash compensation plus an award of 600 shares of restricted common stock for electing to subject his or her stock compensation to a three-year restriction period, resulting in a total receipt of 1,600 shares of restricted common stock, all of which would be subject to a three-year cliff vesting schedule whereby no shares vest until the third anniversary of the date of grant, at which time 100% of the shares of restricted stock will vest. All unvested shares will be forfeited, however, if such non-employee director voluntarily resigns or is removed by the stockholders for any reason prior to vesting. Subject to the risk of forfeiture and

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transfer restrictions, non-employee directors have all rights as stockholders with respect to restricted shares, including the right to vote and receive dividends or other distributions on such shares.

Stock Awards

Each non-employee director is awarded an annual grant of shares of restricted stock. Our goal is to have a minimum of 60% to 75% of the aggregate total compensation for our non-employee directors paid in the form of restricted stock having a restriction period of up to three years. Directors are not entitled to receive a restriction multiple for this award.

Through 2017, each non-employee director received an annual equity award of restricted stock with an aggregate market value of $50,000 at the conclusion of each annual stockholders' meeting. These shares are subject to a three-year cliff vesting schedule whereby no shares vest until the third anniversary of the date of grant, at which time 100% of the shares of restricted stock will vest. In February 2018, the Compensation Committee approved an increase in the annual equity award, whereby, beginning with the 2018 annual meeting, each non-employee director will receive an annual equity award of restricted stock with an aggregate market value of $75,000 at the conclusion of each annual stockholders' meeting. These shares are subject to a three-year cliff vesting schedule whereby no shares vest until the third anniversary of the date of grant, at which time 100% of the shares of restricted stock will vest. During the restricted periods described above, the restricted shares may not be sold, assigned, pledged or otherwise transferred. Additionally, such non-employee director must forfeit such equity award if the non-employee director voluntarily resigns or is removed for any reason during the year for which the non-employee director is receiving compensation. Subject to the risk of forfeiture and transfer restrictions, directors have all rights as stockholders with respect to restricted shares, including the right to vote and receive dividends or other distributions on such shares.

Mr. Lumsdaine has elected not to stand for reelection at the 2018 annual meeting and, in connection with Mr. Lumsdaine not standing for reelection, the Compensation Committee and the Board approved amendments to Mr. Lumsdaine's restricted stock agreements and award grants that deleted the immediate forfeiture provisions with respect to his restricted stock that will not have vested by May 17, 2018, the date of our annual meeting. Thus, as of May 17, 2018, 13,569 shares of common stock, which represents all of the common stock granted or awarded to Mr. Lumsdaine as a director of the Company, will remain subject to transfer restrictions that will expire according to the original vesting schedule.

2017 Director Compensation

The following table sets forth compensation paid during 2017 to each of our non-employee directors:

	Fees Earned or Paid				
Name(1)	**Fees Paid in Cash**	**Fees Paid in Stock(2)**	**Stock Awards(3)**	**All Other Compensation**	**Total**
Alan Gardner	$	$ 35,000	$ 70,966	$	$ 105,966
Robert Hensley	$ 10,000	$ 25,000	$ 54,970	$	$ 89,970
Alfred Lumsdaine(4)	$	$ 32,500	$ 69,467	$	$ 101,967
Lawrence Van Horn	$	$ 32,500	$ 69,467	$	$ 101,967

(1) Mr. Wallace is our other director and is also a full-time employee whose compensation is discussed below under the section titled "Executive Compensation" and "Summary Compensation Table." Mr. Wallace receives no additional compensation for his service as a director.

(2) This column represents non-employee director annual retainer and additional annual retainer amounts, approximately 93% of which was paid in shares of our restricted common stock in lieu of

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cash. All of the shares are subject to a three-year cliff vesting schedule whereby no shares vest until the third anniversary of the date of grant, at which time 100% of the shares of restricted stock will vest, subject to the director's continuing service as a director of the Company.

(3)
Represents the grant date fair value computed in accordance with FASB ASC Topic 718 of awards of restricted stock to the non-employee directors in 2017, or the 2017 Director Awards, under our 2014 Incentive Plan (defined on page 16). The dollar value of the 2017 Director Awards was based upon the grant date price of our common stock, which was $24.50 on May 30, 2017. This column also includes the amount of the grant date value of the shares received in accordance with restriction multiples with respect to the deferral of director retainer amounts based on the price of our common stock of $25.80 on the determination date, June 20, 2017. All of the shares are subject to a three-year cliff vesting schedule whereby no shares vest until the third anniversary of the date of grant, at which time 100% of the shares of restricted stock will vest, subject to the director's continuing service as a director of the Company.

(4)
Mr. Lumsdaine's term as a director of the Company expires at the 2018 annual meeting upon the election of his successor. Immediate forfeiture provisions contained in Mr. Lumsdaine's restricted stock agreements and award grants have been deleted as of May 17, 2018 and his shares will remain subject to transfer restrictions that will expire according to the original vesting schedule.

We also reimburse our directors for expenses they incur in connection with their service on our Board, such as director education, travel and lodging expenses.

PROPOSAL 2
RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FOR 2018

General

We are asking our stockholders to ratify the selection of BDO USA, LLP as our independent registered public accountants for 2018. Although current law, rules and regulations, as well as the charter of the Audit Committee, require the Audit Committee to engage, retain and supervise our independent registered public accountants, we view the selection of the independent registered public accountants as an important matter of stockholder concern and thus are submitting the selection of BDO USA, LLP for ratification by stockholders as a matter of good corporate practice.

The Audit Committee appointed BDO USA, LLP to serve as our independent registered public accountants for the 2017 fiscal year and has appointed BDO USA, LLP to serve as our independent registered public accountants for the 2018 fiscal year. A representative of BDO USA, LLP is expected to attend the annual meeting. If present, the representative will have the opportunity to make a statement and will be available to respond to appropriate questions. BDO USA, LLP has served as our independent registered public accountants since 2015.

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Audit and Non-Audit Services

Fees related to services performed for us by BDO USA, LLP in fiscal years 2017 and 2016 are as follows:

	2017	2016
Audit Fees(1)	$ 460,056	$ 395,238
Audit-Related Fees(2)		49,652
Tax Fees		
All Other Fees		
Total	$ 460,056	$ 444,890

(1) Audit fees include fees and expenses associated with the audit of our financial statements, the reviews of the financial statements in our quarterly reports on Form 10-Q, and services provided in connection with registration statements and periodic reports filed with the Securities and Exchange Commission. Audit fees for 2017 include fees associated with registration statements totaling $71,405. Audit fees for 2016 include fees associated with registration statements totaling $165,302.

(2) Audit-related fees for 2016 included fees associated with Rule 3-14 audits.

In accordance with the procedures set forth in its charter, the Audit Committee pre-approves all auditing services and permitted non-audit and tax services (including the fees and terms of those services) to be performed for us by our independent registered public accountants prior to their engagement with respect to such services, subject to the de minimis exceptions for non-audit services permitted by the Exchange Act, which are approved by the Audit Committee prior to the completion of the audit.

Required Vote

The affirmative vote by a majority of the votes cast at the annual meeting is required for the ratification of the appointment of BDO USA, LLP as our independent registered public accountants. Abstentions will have no effect on this proposal. If our stockholders fail to ratify this appointment, the Audit Committee will reconsider whether to retain BDO USA, LLP and may retain that firm or another firm without resubmitting the matter to our stockholders. Even if the appointment is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accountant at any time during the year if it determines that such change would be in our best interests and in the best interests n="right">2 $(6) $(5)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives 2011	2010
Commodity contracts	Cost of products sold	$ (1)	$
Foreign exchange contracts	Other expense (income), net		(1)
Total		$ (1)	$ (1)

The following are the pretax effects of derivative instruments on the condensed consolidated statement of operations for the six months ended June 30, 2011 and 2010 (dollars in millions):

Amount of Gain or (Loss)

Derivatives in Cash Flow Hedging Relationships	Recognized in Other Comprehensive Income on Derivatives (Effective Portion) 2011	2010	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) 2011	2010
Commodity contracts	$ (1)	$ (12)	Cost of products sold	$ (9)	$ (10)
Foreign exchange contracts	(4)	1	Cost of products sold	(2)	
Total	$ (5)	$ (11)		$ (11)	$ (10)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives 2011	2010
Commodity contracts	Cost of products sold	$ (1)	$ (1)
Foreign exchange contracts	Other expense (income), net	(1)	(2)
Total		$ (2)	$ (3)

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As of June 30, 2011, we had no derivatives designated as net investment or fair value hedges.

The following are the fair values of derivative instruments on the condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010 (dollars in millions):

Derivatives Designated as Hedging Instruments	Assets Balance Sheet Location	Fair Value 6/30/11	Fair Value 12/31/10	Liabilities Balance Sheet Location	Fair Value 6/30/11	Fair Value 12/31/10
Commodity contracts	Other current assets	$1	$	Accrued expenses	$11	$ 16
Commodity contracts	Other assets			Other liabilities	3	5
Foreign exchange contracts	Other current assets			Accrued expenses	5	3
Foreign exchange contracts	Other assets			Other liabilities		1
Total		$1	$		$19	$ 25

Derivatives Not Designated as Hedging Instruments	Assets Balance Sheet Location	Fair Value 6/30/11	Fair Value 12/31/10	Liabilities Balance Sheet Location	Fair Value 6/30/11	Fair Value 12/31/10
Commodity contracts	Other current assets	$1	$ 1	Accrued expenses	$	$
Commodity contracts	Other assets	1		Other liabilities		
Foreign exchange contracts	Other current assets			Accrued expenses	1	
Total		$2	$ 1		$ 1	$
Total derivatives		$3	$ 1		$20	$ 25

10. Fair Value Measurements

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

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

(millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of June 30, 2011:				
Cash equivalents	$ 172	$ 25	$	$ 197
Marketable securities:				
Corporate debt securities		167		167
U.S. government and agency debt securities		63		63
Asset-backed debt securities		18		18
Certificates of deposit		49		49
Municipal debt securities		26		26
Derivative assets		3		3
Derivative liabilities		(20)		(20)
As of December 31, 2010:				
Cash equivalents	$ 357	$ 59	$	$ 416
Marketable securities:				
Corporate debt securities		123		123
U.S. government and agency debt securities		58		58
Asset-backed debt securities		19		19
Non-U.S. government debt securities		10		10
Certificates of deposit		41		41
Municipal debt securities		27		27
Derivative assets		1		1
Derivative liabilities		(25)		(25)

11. 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)	2011	2010	2011	2010
Pension:				
Service cost of benefits earned	$ 7	$ 6	$ 14	$ 13
Interest cost on projected benefit obligation	16	16	32	32
Expected return on plan assets	(17)	(16)	(33)	(33)
Net amortization	7	4	13	8
Net pension cost	$ 13	$ 9	$ 26	$ 20
Postretirement:				

Service cost of benefits earned	$	1	$	2	$	3	$	4
Interest cost on projected benefit obligation		3		5		7		9
Net amortization		(5)		(5)		(11)		(9)
Net postretirement cost	$	(1)	$	2	$	(1)	$	4

During the second quarter of 2011, we made a contribution to the USG Corporation Retirement Plan Trust, or Trust, that was recorded on the condensed consolidated balance sheet at $30.9 million. This contribution consisted of 2,084,781 shares of our common stock, or the Contributed Shares, and was recorded on the condensed consolidated balance sheet at the June 20, 2011 closing price of $14.84 per share. The Contributed Shares are not reflected on the condensed consolidated statement of cash flows because they were treated as a noncash financing

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activity. The Contributed Shares were valued for purposes of crediting the contribution to the Trust at a discounted value of $14.39 per share ($14.84 less a 3% discount), or approximately $30.0 million in the aggregate, by an independent appraiser retained by Evercore Trust Company, N.A., or Evercore, an independent fiduciary that has been appointed as investment manager with respect to the Contributed Shares. The Contributed Shares are registered for resale, and Evercore has authority to sell some or all of them, as well as other of our shares in the Trust, in its discretion as fiduciary.

During the first quarter of 2011, we contributed $10 million in cash to our pension plan in Canada. In July 2011, we contributed $10 million in cash to the Trust.

12. Share-Based Compensation

During the first six months of 2011, we granted share-based compensation to eligible participants under our Long-Term Incentive Plan. We recognize expense on all share-based grants over the service period, which is the shorter of the period until the employees retirement eligibility dates or the service period of the award for awards expected to vest. Expense is generally reduced for estimated forfeitures. During the three months ended June 30, 2011, we recognized forfeitures of approximately $718,000.

STOCK OPTIONS

We granted stock options to purchase 662,032 shares of common stock during the first six months of 2011 with an exercise price equal to the closing price of our common stock on the date of grant. The stock options generally become exercisable in four equal annual installments beginning one year from the date of grant, although they may become exercisable earlier in the event of death, disability, retirement or a change in control. The stock 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 to be $10.60 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 our historical volatilities and 50% weighting of our implied volatilities. 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 because there is not sufficient historical stock option exercise experience available.

The assumptions used in the valuation were as follows: expected volatility 55.88%, risk-free rate 2.85%, expected term (in years) 6.25 and expected dividends 0.

RESTRICTED STOCK UNITS

We granted RSUs with respect to 444,901 shares of common stock during the first six months of 2011 that generally vest in four equal annual installments beginning one year from the date of grant. During the first six months of 2011, we also granted RSUs with respect to 35,000 shares of common stock that will vest in four equal annual installments beginning one year from the date of grant as a special retention award and with respect to an additional 35,000 shares of common stock that will vest upon the satisfaction of a specified performance goal. Generally, 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 common stock after the vesting period. The fair value of each RSU granted is equal to the closing price of our common stock on the date of grant. Substantially all RSU s granted during the first six months of 2011 had a fair value of $18.99.

PERFORMANCE SHARES

We granted 227,539 performance shares during the first six months of 2011. 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 to that index in certain circumstances, for 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. 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. Each performance share earned will be settled in a share of our common stock.

We estimated the fair value of each performance share granted to be $28.40 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 traded options and the daily historical volatilities of our peer group. 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 valuation date to the end of the performance period.

The assumptions used in the valuation were as follows: expected volatility 77.84%, risk-free rate 1.20%, expected term (in years) 2.89 and expected dividends 0.

13. Supplemental Balance Sheet Information

INVENTORIES

Total inventories consisted of the following:

(millions)	As of June 30, 2011	As of December 31, 2010
Finished goods and work in progress	$ 250	$ 227
Raw materials	63	63
Total	$ 313	$ 290

ASSET RETIREMENT OBLIGATIONS

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

	Six Months ended June 30,	
(millions)	2011	2010
Balance as of January 1	$ 103	$ 101
Accretion expense	2	2
Foreign currency translation	1	
Balance as of June 30	$ 106	$ 103

PROPERTY, PLANT AND EQUIPMENT

As of June 30, 2011, we had $8 million of net property, plant and equipment included in other current assets on the condensed consolidated balance sheet classified as assets held for sale. These assets are primarily owned by United States Gypsum Company. Assets held for sale as of December 31, 2010 amounted to $7 million.

14. Income Taxes

We had an income tax expense of $1 million and an effective tax rate of 1.6% in the second quarter of 2011.

Accounting rules require a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. The need to establish valuation allowances for deferred tax assets is assessed periodically. In assessing the requirement for, and amount of, a valuation allowance in accordance with the more-likely-than-not standard, we give appropriate consideration to all positive and negative evidence related to the realization of the deferred tax assets. Under the accounting rules, this assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring unused and tax planning alternatives. A history of cumulative losses for a

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certain threshold period is a significant form of negative evidence used in the assessment, and the accounting rules require that we have a policy regarding the duration of the threshold period. If a cumulative loss threshold is met, forecasts of future profitability may not be used as positive evidence related to the realization of the deferred tax assets in the assessment. Consistent with practices in the home building and related industries, we have a policy of four years as our threshold period for cumulative losses.

As of June 30, 2011, we had federal net operating loss, or NOL, carryforwards of approximately $1.7 billion that are available to offset future federal taxable income and will expire in the years 2026 through 2031. In addition, as of that date, we had federal alternative minimum tax credit carryforwards of approximately $52 million that are available to reduce future regular federal income taxes over an indefinite period. In order to fully realize these U.S. federal net deferred tax assets, taxable income of approximately $1.8 billion would need to be generated during the period before their expiration. In addition, we have federal foreign tax credit carryforwards of $5 million that will expire in 2015.

As of June 30, 2011, we had a gross deferred tax asset related to our state NOLs and tax credit carryforwards of $282 million, of which $11 million will expire in 2011. The remainder will expire if unused in years 2012 through 2031. To the extent that we do not generate sufficient state taxable income within the statutory carryforward periods to utilize the NOL and tax credit carryforwards in these states, they will expire unused.

We also had NOL and tax credit carryforwards in various foreign jurisdictions in the amount of $5 million as of June 30, 2011 against a portion of which we have historically maintained a valuation allowance.

During periods prior to 2011, we established a valuation allowance against our deferred tax assets totaling $884 million. Based upon an evaluation of all available evidence and our losses for the first and second quarters of 2011, we recorded increases in the valuation allowance against our deferred tax assets of $54 million in the first quarter and $26 million in the second quarter. Our cumulative loss position over the last four years was significant evidence supporting the recording of the additional valuation allowance. In addition to being impacted by the $80 million increase due to the first and second quarter losses, the valuation allowance was also impacted by other discrete adjustments that increased the valuation allowance by $16 million. As a result, the net increase in the valuation allowance was $96 million, increasing our deferred tax assets valuation allowance to $980 million as of June 30, 2011. In future periods, the valuation allowance can be reversed based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

The Internal Revenue Code imposes limitations on a corporation s ability to utilize NOLs if it experiences an ownership change. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. If we were to experience an ownership change, utilization of our NOLs would be subject to an annual limitation determined by multiplying the market value of our outstanding shares of stock at the time of the ownership change by the applicable long-term tax-exempt rate, which was 4.17% for June 2011. Any unused annual limitation may be carried over to later years within the allowed NOL carryforward period. The amount of the limitation may, under certain circumstances, be increased or decreased by built-in gains or losses held by us at the time of the change that are recognized in the five-year period after the change. Many states have similar limitations. If an ownership change had occurred as of June 30, 2011, our annual U.S. federal NOL utilization would have been limited to approximately $62 million per year.

We classify interest expense and penalties related to unrecognized tax benefits and interest income on tax overpayments as components of income taxes (benefit). As of June 30, 2011, the total amount of interest expense and penalties recognized on our condensed consolidated balance sheet was $4 million. The total amount of interest and penalties recognized in our condensed consolidated statements of operations was zero for the second quarter of 2011 and an expense of $1 million for the second quarter of 2010. We recognized a $6 million tax benefit in the first quarter of 2011 due to the reversal of reserves for uncertain tax positions that were resolved during the period.

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Our federal income tax returns for 2008 and prior years have been examined by the Internal Revenue Service, or IRS. The U.S. federal statute of limitations remains open for the year 2004 and later years. We are 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 examinations and the expiration of various statutes of limitation, it is reasonably possible that our gross unrecognized tax benefit may change within the next 12 months by a range of $5 million to $10 million. Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from three to five years.

Under current accounting rules, we are required to consider all items (including items recorded in other comprehensive income) in determining the amount of tax benefit that results from a loss from continuing operations and that should be allocated to continuing operations. As a result, during the second quarter of 2011, we recorded a $3 million noncash income tax benefit on the loss from continuing operations. This benefit was offset by income tax expense on comprehensive income. However, while the income tax benefit from continuing operations is reported on the condensed consolidated statement of operations, the income tax expense on comprehensive income is recorded directly to AOCI, which is a component of stockholders equity. Because the income tax expense on comprehensive income is equal to the income tax benefit from continuing operations, our deferred tax position was not impacted by this tax allocation. A similar noncash income tax benefit of $19 million was recorded during the first quarter of 2010 relating to the fourth quarter of 2009.

15. Comprehensive Income (Loss)

The components of comprehensive income (loss) are summarized in the following table:

	Three Months ended June 30,		Six Months ended June 30,	
(millions)	2011	2010	2011	2010
Net loss	$ (70)	$ (74)	$ (175)	$ (184)
Derivatives, net of tax	5	7	8	(1)
Pension and postretirement benefit plans, net of tax	9	9	6	(8)
Foreign currency translation, net of tax	6	(26)	23	(13)
Total comprehensive loss	$ (50)	$ (84)	$ (138)	$ (206)

AOCI consisted of the following:

(millions)	As of June 30, 2011	As of December 31, 2010
Unrecognized loss on pension and postretirement benefit plans, net of tax	$ (100)	$ (106)
Derivatives, net of tax	16	8
Foreign currency translation, net of tax	71	48
Total	$ (13)	$ (50)

After-tax loss on derivatives reclassified from AOCI to earnings was $5 million during the second quarter of 2011. We estimate that we will reclassify a net $14 million after-tax loss on derivatives from AOCI to earnings within the next 12 months.

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16. Litigation

CHINESE-MANUFACTURED DRYWALL LAWSUITS

L&W Supply Corporation is one of many defendants in lawsuits relating to Chinese-made wallboard installed in homes primarily in the southeastern United States during 2006 and 2007. The wallboard was made in China by a number of manufacturers, including Knauf Plasterboard (Tianjin) Co., or Knauf Tianjin, and was sold or used by hundreds of distributors, contractors, and homebuilders. Knauf Tianjin is an affiliate or indirect subsidiary of Knauf Gips KG, a multinational manufacturer of building materials headquartered in Germany. The plaintiffs in these lawsuits, most of whom are homeowners, claim that the Chinese-made wallboard is defective and emits elevated levels of sulfur gases causing a bad smell and corrosion of copper or other metal surfaces. Plaintiffs also allege that the Chinese-made wallboard causes health problems such as respiratory problems and allergic reactions. The plaintiffs seek damages for the costs of removing and replacing the Chinese-made wallboard and other allegedly damaged property as well as damages for bodily injury, including medical monitoring in some cases. Most of the lawsuits against L&W Supply are part of the consolidated multi-district litigation titled *In re Chinese-Manufactured Drywall Products Liability Litigation*, MDL No. 2047, pending in New Orleans, Louisiana. The focus of the multi-district litigation to date has been on plaintiffs property damage claims and not their alleged bodily injury claims.

L&W Supply s sales of Knauf Tianjin wallboard, which were confined to the Florida region in 2006, were relatively limited. The amount of Knauf Tianjin wallboard potentially sold by L&W Supply Corporation could completely furnish approximately 250-300 average-size houses; however, the actual number of homes involved is greater because many homes contain a mixture of different brands of wallboard. Our records contain the addresses of the homes and other construction sites to which L&W Supply delivered wallboard, but do not specifically identify the manufacturer of the wallboard delivered. Therefore, where Chinese-made wallboard is identified in a home, we can determine from our records whether L&W Supply delivered wallboard to that home.

We made claims against Knauf Tianjin, Knauf Gips KG, and other Knauf companies, collectively referred to as Knauf, for reimbursement and indemnification of our losses in connection with our sales of Knauf Tianjin wallboard. In the first quarter of 2011, we entered into an agreement with Knauf that caps our responsibility for homeowner property damage claims relating to Knauf Tianjin wallboard. The agreement with Knauf does not address claims for bodily injury or claims relating to wallboard made at other Knauf plants in China, neither of which has been a significant factor in the litigation relating to Chinese wallboard.

Of the property damage claims asserted to date where our records indicate we delivered wallboard to the home, we have identified approximately 262 homes where we have confirmed the presence of Knauf Tianjin wallboard or, based on the date and location, the wallboard in the home could be Knauf Tianjin wallboard. We have resolved the claims relating to approximately 138 of those homes by funding or agreeing to fund remediations of the homes.

Although the vast majority of Chinese drywall claims against us relate to Knauf Tianjin board, we have received some claims relating to other Chinese-made wallboard sold by L&W Supply Corporation. Most, but not all, of the other Chinese-made wallboard we sold was manufactured by Knauf at other plants in China. We are not aware of any instances in which the wallboard from the other Knauf Chinese plants has been determined to cause odor or corrosion problems. A small percentage of claims made against L&W Supply Corporation relate to Chinese-made wallboard that was not manufactured by Knauf, but which is alleged to have odor and corrosion problems.

As of June 30, 2011, we have an accrual of $15 million for our estimated cost of resolving all the Chinese wallboard property damage claims pending against L&W Supply and estimated to be asserted in the future, and, based on the terms of our settlement with Knauf, we have recorded a related receivable of $10 million. Our accrual does not take into account litigation costs, the costs of resolving claims for bodily injury, or any set-off for potential insurance recoveries. Our estimated liability is based on the information available to us regarding the number and type of pending claims, estimates of likely future claims, and the costs of resolving those claims. Our estimated liability could be higher if the other Knauf Chinese wallboard that we sold is determined to be problematic, the number of Chinese wallboard claims exceeds our estimates, or the cost of resolving bodily injury claims is more

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than nominal. Considering all factors known to date, we do not believe that these claims and other similar claims that might be asserted will have a material adverse effect on our results of operations, financial position or cash flows. However, there can be no assurance that the lawsuits will not have such an effect.

ENVIRONMENTAL LITIGATION

We have 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 we have properly accrued for our potential liability in connection with these matters. Our accruals take into account all known or estimated undiscounted costs associated with these sites, including site investigations and feasibility costs, site cleanup and remediation, certain legal costs, and fines and penalties, if any. However, we continue to review these accruals as additional information becomes available and revise them as appropriate.

OTHER LITIGATION

We are named as defendants in other claims and lawsuits arising from our operations, including claims and lawsuits arising from the operation of our vehicles, product warranties, personal injury and commercial disputes. We believe that we have properly accrued for our potential liability in connection with these claims and suits, 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. We do not expect these 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. We produce a wide range of products for use in new residential, new nonresidential, and residential and nonresidential repair and remodel construction as well as products used in certain industrial processes. We estimate that during the first six months of 2011

- residential and nonresidential repair and remodel activity accounted for approximately 55% of our net sales,
- new residential construction accounted for approximately 21% of our net sales,
- new nonresidential construction accounted for approximately 21% of our net sales, and
- other activities accounted for approximately 3% of our net sales.

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

North American Gypsum: North American Gypsum manufactures and markets gypsum and related products in the United States, Canada and Mexico. It 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 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, FIBEROCK® brand gypsum fiber panels and SECUROCK® brand glass mat sheathing used for building exteriors and gypsum fiber panels used as roof cover board.

Building Products Distribution: Building Products Distribution consists of L&W Supply Corporation and its subsidiaries, or L&W Supply, the leading distributor of gypsum wallboard and other building materials 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 manufactures and markets interior systems products worldwide. It 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. Worldwide Ceilings manufactures ceiling tile in the United States and ceiling grid in the United States, Canada, Europe and the Asia-Pacific region. It markets 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.

Geographic Information: For the first six months of 2011, approximately 76% of our net sales were attributable to the United States, Canada accounted for approximately 12% of our net sales and other foreign countries accounted for the remaining 12%.

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NEW PRODUCT INTRODUCTION

In 2010, U.S. Gypsum introduced SHEETROCK® Brand UltraLight Panels, a new, lightweight 1/2-inch gypsum wallboard product that is up to 30% lighter than competing brands. Due to positive customer response, U.S. Gypsum accelerated the distribution of this product and it is now available at more than 2,000 retail and specialty dealer locations in the United States and Canada. In April 2011, U.S. Gypsum broadened its portfolio of lightweight wallboard products with the introduction of SHEETROCK® Brand UltraLight Panels FIRECODE® 30. This new, lightweight 5/8-inch gypsum wallboard product meets standards for use in non-rated and 30-minute fire-rated partitions and is up to 30% lighter than competing brands. SHEETROCK® UltraLight Panels FIRECODE®30 have received a favorable response from our customers and are now available through more than 200 specialty dealers in the eastern half of the United States.

FINANCIAL INFORMATION

Consolidated net sales in the second quarter of 2011 were $761 million, down 1% from the second quarter of 2010. An operating loss of $21 million and a net loss of $70 million, or $0.69 per share, were incurred in the second quarter of 2011. These results compared with an operating loss of $25 million and a net loss of $74 million, or $0.74 per share, in second quarter of 2010.

As of June 30, 2011, we had $725 million of cash and cash equivalents and marketable securities compared with $769 million as of March 31, 2011 and $907 million as of December 31, 2010. Uses of cash during the first six months of 2011 primarily included $97 million for interest payments, $24 million paid for severance and other obligations associated with restructuring activities, $25 million for capital expenditures plus an additional $7 million for capital expenditures accrued in 2010 and $8.5 million for state and foreign tax payments.

MARKET CONDITIONS AND OUTLOOK

Our businesses are cyclical in nature and sensitive to changes in general economic conditions, including, in particular, conditions in the North American construction-based markets, which are our most significant markets. The market segments we serve can be broadly categorized as new residential construction, new nonresidential construction and repair and remodel activity, which includes both residential and nonresidential construction.

Housing starts are a very good indicator of demand for our gypsum products. Installation of our gypsum products typically follows the start of construction by one to two months. New residential construction in the United States continues to be at a very low level by historical standards. In June 2011, the seasonally-adjusted annualized rate of housing starts was reported by the U.S. Census Bureau to have increased to 629,000 units, the highest level since January 2011 but still less than one-third of the level at the peak of the housing boom. Many industry analysts believe that the decline in new home construction has stabilized, that there will be a muted recovery over the next few years, and that over the longer term housing starts will begin to approach historical averages. However, the rate of recovery remains uncertain and will depend on broader economic issues such as employment, foreclosures and house price trends. Industry analysts forecasts for new single and multi-family construction in the United States in 2011 are for a range of from 570,000 to 630,000 units. We currently estimate that 2011 housing starts in the U.S. will be near the middle of that range.

New nonresidential construction has also experienced significant declines over the past several years. Demand for our products from new nonresidential construction is determined by floor space for which contracts are signed. Installation of gypsum and ceilings products typically follows signing of construction contracts by about one year. According to McGraw-Hill Construction, total floor space for which new nonresidential construction contracts in the United States were signed declined 14% in 2010 compared to 2009 following a 44% decrease in 2009 compared to 2008. However, industry analysts have noted that there may be signs of stabilization in this segment. Vacancy rates, although still high by historical standards, are no longer increasing, delinquency rates on construction and development loans have fallen, and a majority of large banks are no longer tightening lending standards. McGraw-Hill Construction now forecasts that total floor space for which new nonresidential construction contracts in the U.S. are signed will be virtually unchanged in 2011 from the 2010 level.

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The repair and remodel segment includes renovation of both residential and nonresidential buildings. As a result of the low levels of new home construction in recent years, this segment currently accounts for the largest portion of our sales. Many buyers begin to remodel an existing home within two years of purchase. According to the National Association of Realtors, sales of existing homes in the United States decreased to approximately 4.9 million units in 2010, the lowest level since 1997 and down from a high of 6.5 million units in 2006. For June 2011, the National Association of Realtors reported that sales of existing homes were at a seasonally adjusted annual rate of 4.77 million. The low levels of existing home sales in recent years, continued concerns regarding the job market and home resale values and tight lending standards have all contributed to a decrease in demand for our products from the residential repair and remodel segment. Recent housing price trends, as indicated by indices such as the S&P Case-Shiller Home Price Index, suggest that meaningful increases in home resale values in most markets are unlikely in the near term. Nonresidential repair and remodel activity is driven by factors including lease turnover rates, discretionary business investment, job growth and governmental building-related expenditures. We currently estimate that overall repair and remodel spending in 2011 will be approximately 1% above the 2010 level.

The outlook for our international businesses is more positive. We have seen most of the markets in which we do business stabilize after the effects of the global financial crisis, and emerging markets are showing positive growth. However, there is uncertainty regarding the strength of our European markets due to continuing concerns about the European debt crisis.

The housing and construction-based market segments we serve are affected by economic conditions, the availability of credit, lending practices, interest rates, the unemployment rate and consumer confidence. An increase in interest rates, continued high levels of unemployment, continued restrictive lending practices, a decrease in consumer confidence or other adverse economic conditions could have a material adverse effect on our business, financial condition, results of operations and cash flows. Our businesses are also affected by a variety of other factors beyond our control, including the inventory of unsold homes, which remains at a historically high level, the level of foreclosures, home resale rates, housing affordability, office and retail vacancy rates and foreign currency exchange rates. Since we operate in a variety of geographic markets, our businesses are subject to the economic conditions in each of these geographic markets. General economic downturns or localized downturns or financial concerns in the regions where we have operations may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our results of operations have been adversely affected by the economic downturn and continued uncertainty in the financial markets. During the first six months of 2011, our North American Gypsum segment continued to be adversely affected by the low level of residential and other construction activity. Our Building Products Distribution segment, which serves the residential and commercial market segments, and our Worldwide Ceilings segment, which primarily serves the commercial markets, continued to be adversely affected by the significant reduction in new commercial construction activity.

Industry shipments of gypsum wallboard in the United States (including imports) were an estimated 8.52 billion square feet in first six months of 2011, down approximately 6% compared with 9.09 billion square feet in the first six months of 2010. We estimate that industry shipments in the United States for all of 2011 will be approximately 17.3 billion square feet, unchanged from 17.3 billion square feet in 2010.

U.S. Gypsum shipped 1.98 billion square feet of SHEETROCK® brand gypsum wallboard in the first six months of 2011, an 11% decrease from 2.22 billion square feet in the first six months of 2010. The percentage decline of U.S. Gypsum s wallboard shipments in the first six months of 2011 compared with the first six months of 2010 exceeded the decline for the industry primarily due to our continuing efforts to improve profitability. U.S. Gypsum s share of the gypsum wallboard market in the United States was approximately 24% in the second quarter and first six months of 2011, down from approximately 25% in the second quarter and first six months of 2010. Its share of the gypsum wallboard market in the United States was approximately 24% in the first quarter of 2011.

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Currently, there is significant excess wallboard production capacity industry-wide in the United States. Industry capacity in the United States was approximately 34.4 billion square feet as of January 1, 2011. We estimate that the industry capacity utilization rate was approximately 51% during the first six months of 2011 compared to 52% during the first six months of 2010. We project that the industry capacity utilization rate will remain at approximately that level for the balance of 2011. Despite our realization of some price improvement since the first quarter, we expect there to be continued pressure on gypsum wallboard selling prices and gross margins at such a low level of capacity utilization.

RESTRUCTURING AND OTHER INITIATIVES

We have been adjusting our operations in response to market conditions since the downturn began in 2006. Since mid-2006, we have temporarily idled or permanently closed approximately 3.8 billion square feet of our highest-cost wallboard manufacturing capacity. In the first quarter of 2011, we temporarily idled our gypsum quarry and ship loading facility in Windsor, Nova Scotia, Canada.

Since January 1, 2007, we have eliminated approximately 4,575 salaried and hourly positions, including approximately 75 positions during the first six months of 2011 primarily reflecting L&W Supply s 2011 cost reduction initiative. As part of L&W Supply s efforts to reduce its cost structure, it has closed a total of 103 distribution branches since January 1, 2007. It continued to serve its customers from 163 branches in the United States as of June 30, 2011.

Restructuring activities in 2010 included (1) a salaried workforce reduction program, (2) the permanent closure of three gypsum wallboard production facilities, including two that had been temporarily idled since 2008, and two paper production facilities that were temporarily idled in 2009 and 2008, (3) the temporary idling of two gypsum wallboard production facilities, a plaster production facility and a gypsum quarry, and (4) the closure of five distribution branches.

We will continue to adjust our operations to the economic conditions in our markets.

Historically, the housing and other construction markets that we serve have been deeply cyclical. Downturns in demand are typically steep and last several years, but they have typically been followed by periods of strong recovery. If the recovery from this cycle results in increases in demand similar to those realized in recoveries from past cycles, we believe we will generate significant cash flows when our markets recover. We regularly monitor forecasts prepared by external economic forecasters and review our facilities and other assets to determine which of them, if any, are impaired under applicable accounting rules. During the first six months of 2011, we recorded a $1 million long-lived asset impairment related to an asset that was written down to its net realizable value. Because we believe that a significant recovery in the housing and other construction markets we serve is likely to begin in the next two to three years, we determined that there were no other impairments of our long-lived assets during the first six months of 2011.

However, if the downturn in our markets does not significantly reverse or the downturn is significantly further extended, material write-downs or impairment charges may be required in the future. If these conditions were to materialize or worsen, or if there is a fundamental change in the housing and other construction markets we serve, which individually or collectively lead to a significantly extended downturn or decrease in demand, we may permanently close additional production and distribution facilities and material restructuring and impairment charges may be necessary. The magnitude and timing of those possible charges would be dependent on the severity and duration of the extended downturn, should it materialize, and cannot be determined at this time. Any material restructuring or impairment charges, including write-downs of property, plant and equipment, would have a material adverse effect on our results of operations and financial condition. We will continue to monitor economic forecasts and their effect on our facilities to determine whether any of our assets are impaired.

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Our focus on costs and efficiencies, including capacity closures and overhead reductions, has helped to mitigate the effects of the downturn in all of our markets. As economic and market conditions warrant, we will evaluate alternatives to further reduce costs, improve operational efficiency and maintain adequate liquidity. Actions to reduce costs and improve efficiencies could require us to record additional restructuring charges. See Liquidity and Capital Resources below for information regarding our cash position and credit facilities. See Part I, Item 1A, Risk Factors, in our 2010 Annual Report on Form 10-K for additional information regarding conditions affecting our businesses, the possibility that additional capital investment would be required to address future environmental laws and regulations and the effects of climate change and other risks and uncertainties that affect us.

KEY OBJECTIVES AND STRATEGIES

While adjusting our operations during this challenging business cycle, we are continuing to focus on the following key objectives and strategic priorities:

Objectives:

- extend our customer satisfaction leadership;
- improve operating efficiencies and reduce costs;
- maintain financial flexibility;

Strategic Priorities:

- strengthen our core businesses;
- diversify our earnings by expanding internationally and expanding our current product lines; and
- differentiate USG from our competitors through innovation.

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Consolidated Results of Operations

(dollars in millions, except per-share data)	2011	2010	% Increase (Decrease)
Three Months ended June 30:			
Net sales	$ 761	$ 769	(1)%
Cost of products sold	708	714	(1)%
Gross profit	53	55	(4)%
Selling and administrative expenses	72	73	(1)%
Restructuring and long-lived asset impairment charges	2	7	(71)%
Operating loss	(21)	(25)	(16)%
Interest expense	52	44	18%
Interest income	(2)	(1)	100%
Other income, net	(2)	(1)	100%
Income tax expense	1	7	(86)%
Net loss	(70)	(74)	(5)%
Diluted loss per share	(0.69)	(0.74)	(7)%
Six Months ended June 30:			
Net sales	$ 1,482	$ 1,485	
Cost of products sold	1,393	1,416	(2)%
Gross profit	89	69	29%
Selling and administrative expenses	157	157	
Restructuring and long-lived asset impairment charges	11	19	(42)%
Operating loss	(79)	(107)	(26)%
Interest expense	104	89	17%
Interest income	(4)	(2)	100%
Other income, net	(2)		
Income tax benefit	(2)	(10)	(80)%
Net loss	(175)	(184)	(5)%
Diluted loss per share	(1.70)	(1.85)	(8)%

NET SALES

Consolidated net sales in the second quarter of 2011 decreased $8 million, or 1%, compared with the second quarter of 2010. Net sales increased 1% for our Worldwide Ceilings segment, but decreased 2% for our North American Gypsum segment and 4% for our Building Products Distribution segment. The higher level of net sales in the second quarter of 2011 for Worldwide Ceilings was primarily due to higher ceiling grid selling prices in the United States (up 7%) compared with the second quarter of 2010. The lower level of net sales for North American Gypsum was largely attributable to an 8% decline in U.S. Gypsum s SHEETROCK® brand gypsum wallboard volume and a 2% decrease in average gypsum wallboard selling prices. Net sales for Building Products Distribution were down primarily due to a 24% decrease in gypsum wallboard volume, partially offset by an 8% increase in average gypsum wallboard selling prices.

Consolidated net sales in the first six months of 2011 decreased $3 million compared with the first six months of 2010. Net sales increased 4% for our Worldwide Ceilings segment, but decreased 2% for our North American Gypsum segment and 3% for our Building Products Distribution segment. The higher level of net sales in the first six months of 2011 for Worldwide Ceilings was primarily due to higher ceiling grid volume (up 2%) and selling prices (up 8%) in the United States compared with the first six months of 2010. The lower level of net sales for North

American Gypsum was largely attributable to an 11% decline in U.S. Gypsum s SHEETROCK® brand gypsum wallboard volume. Net sales for Building Products Distribution were down primarily due to a 22% decrease in gypsum wallboard volume, partially offset by a 9% increase in average gypsum wallboard selling prices.

COST OF PRODUCTS SOLD

Cost of products sold for the second quarter of 2011 decreased $6 million, or 1%, compared with the second quarter of 2010 primarily reflecting lower product volumes. Manufacturing costs per unit for U.S. Gypsum s SHEETROCK® brand gypsum wallboard were down 2% in the second quarter of 2011 compared with the second quarter of 2010, primarily due to per unit cost decreases of 7% for energy and 7% for fixed costs, partially offset by a 2% increase in per unit costs for raw materials. For USG Interiors, manufacturing costs per unit increased for ceiling grid in the second quarter of 2011 compared with the second quarter of 2010 due to higher steel costs and for ceiling tile due to higher per unit costs for raw materials, offset in part by lower per unit energy costs.

Cost of products sold for the first six months of 2011 decreased $23 million, or 2%, compared with the first six months of 2010 primarily reflecting lower product volumes. Manufacturing costs per unit for U.S. Gypsum s SHEETROCK® brand gypsum wallboard were down 2% in the first six months of 2011 compared with the first six months of 2010, primarily due to per unit cost decreases of 6% for energy and 6% for fixed costs. For USG Interiors, manufacturing costs per unit increased for ceiling grid in the first six months of 2011 compared with the first six months of 2010 due to higher steel costs and for ceiling tile due to higher per unit costs for raw materials, offset in part by lower per unit energy costs.

GROSS PROFIT

Gross profit for the second quarter of 2011 decreased $2 million, or 4%, compared with the second quarter of 2010. Gross profit as a percentage of net sales was 7.0% for the second quarter of 2011, down slightly from 7.2% for the second quarter of 2010.

Gross profit for the first six months of 2011 increased $20 million, or 29%, compared with the first six months of 2010. Gross profit as a percentage of net sales was 6.0% for the first six months of 2011 compared with 4.6% for the first six months of 2010. The higher percentage for the first six months of 2011 was primarily due to improved gross margins for L&W Supply and USG Interiors.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses totaled $72 million and $157 million in the second quarter and first six months of 2011, respectively, compared with $73 million and $157 million in the second quarter and first six months of 2010, respectively. As a percentage of net sales, selling and administrative expenses were 9.5% for the second quarters of 2011 and 2010 and 10.6% for the first six months of 2011 and 2010.

RESTRUCTURING AND LONG-LIVED ASSET IMPAIRMENT CHARGES

As a result of continuing adverse market conditions, we recorded restructuring and long-lived asset impairment charges totaling $2 million during the second quarter of 2011 and $11 million during the first six months of 2011.

Restructuring and long-lived asset impairment charges for the second quarter of 2011 included $1 million for lease obligations and $1 million for exit costs related to production facilities closed in 2010 and 2009. These charges related to North American Gypsum.

Restructuring and long-lived asset impairment charges for the first six months of 2011 included $4 million for severance related to our salaried workforce reduction program announced during the fourth quarter of 2010 and a 2011 cost reduction initiative for L&W Supply Corporation, $2 million for lease obligations, $1 million for long-lived asset impairment related to an asset that was written down to its net realizable value and $4 million for exit costs related to production facilities closed in 2010 and 2009. On a segment basis, $9 million of the charges related to North American Gypsum, $1 million to Building Products Distribution and $1 million to Corporate.

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Second quarter 2010 restructuring and long-lived asset impairment charges totaled $7 million and related to the curtailment of operations at a mining facility in Canada, the closure of one distribution center, the closure of an office and warehouse in Europe and continuing charges and adjustments related to prior-period restructuring initiatives. The charges included $4 million for severance, $1 million for asset impairments and lease obligations and $2 million for other exit costs.

For the first six months of 2010, restructuring and long-lived asset impairment charges were $19 million. This amount primarily included charges related to the closure of five distribution centers and a gypsum wallboard production facility in Southard, Okla., the temporary idling of a gypsum wallboard production facility in Stony Point, N.Y., and the curtailment of operations at the mining facility in Canada. The charges included $9 million for severance, $6 million for asset impairments and lease obligations and $4 million for other exit costs.

Total cash payments charged against the restructuring reserve in the first six months of 2011 amounted to $24 million. We expect future payments to be approximately $11 million during the remainder of 2011, $9 million in 2012 and $15 million after 2012. All restructuring-related payments made in the first six 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. See Note 3 to the condensed consolidated financial statements for additional information related to our restructuring reserve.

INTEREST EXPENSE

Interest expense was $52 million in the second quarter of 2011 compared with $44 million in the second quarter of 2010. For the first six months of 2011, interest expense was $104 million compared with $89 million for the first six months of 2010. Interest expense was higher in the 2011 periods primarily due to higher average levels of debt outstanding.

INCOME TAX EXPENSE (BENEFIT)

Income tax expense was $1 million in the second quarter of 2011 compared to $7 million in the second quarter of 2010. We had effective tax rates of 1.6% and 9.9% for the second quarter of 2011 and 2010, respectively. Income tax benefit was $2 million for the first six months of 2011 and $10 million for the first six months of 2010. Our effective tax rates were 1.1% and 5.4% for the first six months of 2011 and 2010, respectively. Since recording a full valuation allowance against the federal and most state deferred tax assets, the effective tax rate in 2011 is lower as we do not benefit losses in those jurisdictions and have a provision in foreign jurisdictions. In addition, during the second quarter of 2011, we recorded a noncash income tax benefit of $3 million resulting from the requirement to consider all items (including items recorded in other comprehensive income) in determining the amount of income tax benefit that results from a loss from continuing operations. This income tax benefit was offset by income tax expense on other comprehensive income. A similar noncash income tax benefit of $19 million was recorded during the first quarter of 2010 relating to the fourth quarter of 2009.

NET LOSS

A net loss of $70 million, or $0.69 per diluted share, was recorded in the second quarter of 2011 compared with a net loss of $74 million, or $0.74 per diluted share, in the second quarter of 2010. A net loss of $175 million, or $1.70 per diluted share, was recorded for the first six months of 2011 compared with a net loss of $184 million, or $1.85 per diluted share, for the first six months of 2010.

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Segment Results of Operations
NORTH AMERICAN GYPSUM

Net sales and operating profit (loss) for the businesses comprising our North American Gypsum segment were as follows:

	Three Months ended June 30,			Six Months ended June 30,		
(millions)	2011(a)	2010(b)	% Increase (Decrease)	2011(a)	2010(b)	% Increase (Decrease)
Net Sales:						
U. S. Gypsum	$ 322	$ 336	(4)%	$ 640	$ 668	(4)%
CGC (gypsum)	76	75	1%	152	151	1%
USG Mexico	40	37	8%	81	73	11%
Other (c)	7	9	(22)%	14	15	(7)%
Eliminations	(25)	(29)	(14)%	(51)	(55)	(7)%
Total	$ 420	$ 428	(2)%	$ 836	$ 852	(2)%
Operating Profit (Loss):						
U. S. Gypsum	$ (21)	$ (16)	31%	$ (50)	$ (53)	(6)%
CGC (gypsum)	2	6	(67)%	5	13	(62)%
USG Mexico	5	4	25%	10	7	43%
Other (c)	(2)	(5)	(60)%	(10)	(13)	(23)%
Total	$ (16)	$ (11)	45%	$ (45)	$ (46)	(2)%

(a) Operating losses for 2011 included restructuring and long-lived asset impairment charges of $2 million and $9 million for the second quarter and first six months, respectively. These charges related to U.S. Gypsum.

(b) Operating losses for 2010 included restructuring and long-lived asset impairment charges of $6 million and $10 million for the second quarter and first six months, respectively. These charges included $5 million and $9 million related to U.S. Gypsum for the second quarter and first six months, respectively, and $1 million in each period relating to a mining operation in Nova Scotia, Canada.

(c) Includes a shipping company in Bermuda and a mining operation in Nova Scotia, Canada.

U.S. Gypsum: Net sales in the second quarter of 2011 were $322 million, down $14 million, or 4%, compared with the second quarter of 2010. Net sales of SHEETROCK® brand gypsum wallboard declined $12 million, or 10%, reflecting an 8% decrease in gypsum wallboard shipments which adversely affected sales by $10 million and a 2% decrease in average gypsum wallboard selling prices which lowered sales by $2 million. Net sales for FIBEROCK® brand gypsum fiber panels declined $3 million primarily due to a 36% decrease in volume as a result of the decision by that product s principal customer to reduce the number of tile backer products it carries. Net sales of SHEETROCK® brand joint compound declined $2 million due to a 6% decrease in volume, partially offset by a 3% increase in selling prices. Net sales of DUROCK® brand cement board increased $1 million due to a 7% increase in volume, partially offset by a 1% decrease in selling prices. Net sales of other products increased an aggregate of $2 million compared with the second quarter of 2010.

An operating loss of $21 million was recorded in the second quarter of 2011 compared with an operating loss of $16 million in the second quarter of 2010. The $5 million unfavorable change in operating loss reflected gross profit declines of (1) $2 million for SHEETROCK® brand gypsum wallboard, of which $1 million was due to the lower shipments and $1 million was due to a lower gross margin, (2) $2 million for SHEETROCK® brand joint compound primarily due to the lower volume and 6% higher per unit costs, (3) $1 million for FIBEROCK® brand gypsum fiber panels primarily due to the lower volume and (4) a $4 million aggregate decrease in gross profit for other product lines. These declines were partially was offset by a $3 million decrease in restructuring and long-lived asset impairment charges and a $1 million decrease in selling and administrative expenses compared to the second quarter of 2010. Gross profit for DUROCK® brand cement board was unchanged compared to the second quarter of 2010 as the increase in volume was offset by a lower gross margin due to the lower selling prices and 3% higher per unit costs.

Demand for gypsum wallboard declined in the second quarter of 2011 compared to the second quarter of 2010. U.S. Gypsum shipped 986 million square feet of SHEETROCK® brand gypsum wallboard in the second quarter of 2011, an 8% decrease from 1.07 billion square feet in the second quarter of 2010 which benefited from the impact of the housing tax credit during the first half of that quarter. We estimate that capacity utilization rates were approximately 51% for the industry and 42% for U.S. Gypsum during the second quarter of 2011.

In the second quarter of 2011, our nationwide average realized selling price for SHEETROCK® brand gypsum wallboard was $111.55 per thousand square feet, down 2% from $114.17 in the second quarter of 2010, but up 2% from $109.15 in the first quarter of 2011 due to the price increase implemented by U.S. Gypsum effective in March 2011.

Manufacturing costs per unit for U.S. Gypsum s SHEETROCK® brand gypsum wallboard were down 2% in the second quarter of 2011 compared with the second quarter of 2010, primarily due to per unit cost decreases of 7% for energy and 7% for fixed costs, partially offset by a 2% increase in per unit costs for raw materials. Compared to the first quarter of 2011, SHEETROCK® brand gypsum wallboard manufacturing costs per unit decreased 1%, primarily due to lower energy costs.

CGC (gypsum): Net sales in the second quarter of 2011 were $76 million, an increase of $1 million compared to the second quarter of 2010. The increase in net sales reflects a $4 million favorable currency translation impact, partially offset by a $3 million decrease in sales of SHEETROCK® brand gypsum wallboard due to 3% lower volume and 4% lower selling prices. Sales of products other than gypsum wallboard were unchanged. Operating profit was $2 million in the second quarter of 2011 compared with $6 million in the second quarter of 2010. This decline was attributable to a $4 million decrease in gypsum wallboard gross profit due to the lower volume and selling prices and 5% higher per unit manufacturing costs primarily due to higher raw materials costs.

USG Mexico: Net sales for our Mexico-based subsidiary were $40 million in the second quarter of 2011 compared with $37 million in the second quarter of 2010. Net sales increased $3 million for ceiling products, glass mat sheathing and miscellaneous product lines, but were unchanged for SHEETROCK® brand gypsum wallboard, drywall steel, cement board, and joint treatment. Operating profit was $5 million in the second quarter of 2011 compared with $4 million in the second quarter of 2010 reflecting gross profit increases of $1 million each for drywall steel and joint treatment, partially offset by a $1 million decrease in gross profit related to other nonwallboard products and miscellaneous costs. Gross profit was unchanged for SHEETROCK® brand gypsum wallboard.

BUILDING PRODUCTS DISTRIBUTION

Net sales and operating loss for our Building Products Distribution segment, which consists of L&W Supply, were as follows:

	Three Months ended June 30,			Six Months ended June 30,		
(millions)	2011	2010(a)	% Decrease	2011(b)	2010(a)	% Decrease
Net sales	$ 270	$ 282	(4)%	$ 513	$ 530	(3)%
Operating loss	(14)	(22)	(36)%	(36)	(61)	(41)%

(a) Operating losses for 2010 included restructuring and long-lived asset impairment charges of $1 million and $9 million for the second quarter and first six months, respectively.

(b) The operating loss for first six months of 2011 included restructuring and long-lived asset impairment charges of $1 million.

L&W Supply s net sales in the second quarter of 2011 were $270 million, down $12 million, or 4%, compared with the second quarter of 2010. Net sales of gypsum wallboard declined $16 million, or 18%, reflecting a 24% decrease in gypsum wallboard shipments, which adversely affected sales by $21 million, partially offset by an 8% increase in average gypsum wallboard selling prices, which favorably affected sales by $5 million. Net sales increased $7 million, or 8%, for construction metal products and $5 million, or 7%, for ceilings products as higher selling prices more than offset lower volumes for these products. Net sales of all other products decreased $8 million, or 10%. As a result of lower gypsum wallboard volume, same-location net sales for the second quarter of 2011 were down 4% compared with the second quarter of 2010.

An operating loss of $14 million was incurred in the second quarter of 2011 compared with an operating loss of $22 million in the second quarter of 2010. The $8 million reduction in operating loss was attributable to a $12 million decrease in operating expenses primarily attributable to L&W Supply s cost reduction programs, partially offset by lower gross profit for gypsum wallboard (down $1 million) and other product lines (down $4 million). The decline in gross profit for gypsum wallboard reflected a $4 million decrease due to the lower shipments, partially offset by a 31% increase in gypsum wallboard gross margin. That gross margin increase and the impact of rebates favorably affected operating profit by $3 million. There were no restructuring charges in the second quarter of 2011 compared with $1 million in the second quarter of 2010.

L&W Supply continued to serve its customers from 163 branches in the United States as of June 30, 2011. L&W Supply operated 163 branches as of December 31, 2010 and 160 branches as of June 30, 2010.

WORLDWIDE CEILINGS

Net sales and operating profit for the businesses comprising our Worldwide Ceilings segment were as follows:

	Three Months ended June 30,			Six Months ended June 30,		
(millions)	2011	2010	% Increase (Decrease)	2011	2010	% Increase (Decrease)
Net Sales:						
USG Interiors	$ 112	$ 111	1%	$ 222	$ 214	4%
USG International	55	57	(4)%	116	114	2%
CGC (ceilings)	18	16	13%	37	33	12%
Eliminations	(12)	(12)		(25)	(24)	4%
Total	$ 173	$ 172	1%	$ 350	$ 337	4%
Operating Profit:						
USG Interiors	$ 15	$ 18	(17)%	$ 33	$ 30	10%
USG International	3	2	50%	7	5	40%
CGC (ceilings)	4	3	33%	8	6	33%
Total	$ 22	$ 23	(4)%	$ 48	$ 41	17%

USG Interiors: Net sales for our domestic ceilings business increased to $112 million in the second quarter of 2011 from $111 million in the second quarter of 2010. The increase was primarily due to higher selling prices for ceiling grid. Operating profit of $15 million was down $3 million, or 17%, compared with the second quarter of 2010 primarily due to a lower gross margin for ceiling tile.

Net sales in the second quarter of 2011 increased $1 million for ceiling grid and were unchanged for ceiling tile compared with the second quarter of 2010. A 7% increase in ceiling grid selling prices favorably affected sales by $2 million, while a 4% decrease in grid volume adversely affected sales by $1 million. A 3% increase in ceiling tile selling prices, which favorably affected sales by $2 million, was offset by a 3% decrease in tile volume.

The decrease in operating profit was attributable to a $2 million decline in gross profit for ceiling tile and a $1 million increase in selling and administrative expenses. Gross profit for ceiling tile was adversely affected by a $1 million decrease in gross margin reflecting higher per unit manufacturing costs, which more than offset higher selling prices, and a $1 million decrease due to lower volume. Gross profit for ceiling grid was unchanged as a

$1 million decrease due to lower volume was offset by a $1 million increase in gross margin due to higher selling prices.

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USG International: Net sales of $55 million in the second quarter of 2011 were down $2 million, or 4%, compared with the second quarter of 2010 primarily due to decreased demand for grid in Europe and lower sales of FIBEROCK® brand gypsum fiber panels in the Pacific region due to the delay of a construction project. These decreases were partially offset by increased demand for joint treatment in Europe. Operating profit was $3 million in the second quarter of 2011 compared with $2 million in the second quarter of 2010 primarily due to increased gross profit for gypsum products in Latin America and lower restructuring expenses in the second quarter 2011.

CGC (ceilings): Net sales in the second quarter of 2011 of $18 million were up $2 million, or 13%, compared with the second quarter of 2010. Operating profit increased to $4 million from $3 million. These results were primarily attributable to higher selling prices for ceiling tile and grid and, in the case of net sales, the favorable effects of currency translation.

CORPORATE

The operating loss for Corporate was $15 million in the second quarter of 2011 compared with $14 million for the second quarter of 2010. The operating loss for Corporate increased $7 million to $44 million in the first six months of 2011 compared to the first six months of 2010. The increase was primarily attributable to expenses associated with upgrades to our technology infrastructure and an enterprise-wide initiative to improve back office efficiency.

Liquidity and Capital Resources

LIQUIDITY

As of June 30, 2011, we had $725 million of cash and cash equivalents and marketable securities compared with $769 million as of March 31, 2011 and $907 million as of December 31, 2010. Uses of cash during the first six months of 2011 primarily included $97 million for interest payments, $24 million paid for severance and other obligations associated with restructuring activities, $25 million for capital expenditures plus an additional $7 million for capital expenditures accrued in 2010 and $8.5 million for state and foreign tax payments. Our total liquidity as of June 30, 2011 was $923 million, including $198 million of borrowing availability under our revolving credit facilities.

Our cash is invested in cash equivalents and marketable securities pursuant to an investment policy that has preservation of principal as its primary objective. The policy includes provisions regarding diversification, credit quality and maturity profile that are designed to minimize the overall risk profile of our investment portfolio. The securities in the portfolio are subject to normal market fluctuations. See Note 6 to the condensed consolidated financial statements for additional information regarding our investments in marketable securities.

Our credit facility is guaranteed by our significant domestic subsidiaries and secured by their and USG s trade receivables and inventory. It matures in December 2015 and allows for revolving loans and letters of credit (up to $250 million) in an aggregate principal amount not to exceed the lesser of (a) $400 million or (b) a borrowing base determined by reference to the trade receivables and inventory of USG and its significant domestic subsidiaries. The maximum allowable borrowings may be increased at our request with the agreement of the lenders providing increased or new lending commitments, provided that the maximum allowable borrowings after giving effect to the increase may not exceed $600 million. Availability under the credit facility will increase or decrease depending on changes to the borrowing base over time. The facility contains a single financial covenant that would require us to maintain a minimum fixed charge coverage ratio of 1.1-to-1.0 if and for so long as the excess of the borrowing base over the outstanding borrowings under the credit agreement is less than the greater of (a) $40 million and (b) 15% of the lesser of (i) the aggregate revolving commitments at such time and (ii) the borrowing base at such time. As of June 30, 2011, our fixed charge coverage ratio was (0.19)-to-1. Because we do not currently satisfy the required fixed charge coverage ratio, we must maintain borrowing availability of at least $44 million under the credit facility. Taking into account the most recent borrowing base calculation, borrowings available under the credit facility were approximately $167 million. We also have Can. $30 million available for borrowing under CGC s credit facility. The U.S. dollar equivalent of borrowings available under CGC s credit facility as of June 30, 2011 was $31 million.

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We expect our total capital expenditures for 2011 will be approximately $50 million. In the first six months of 2011, they totaled $25 million. Interest payments are expected to increase to approximately $195 million in 2011 compared with $171 million in 2010 due to a higher average level of debt outstanding. We have no term debt maturities until 2014, other than approximately $7 million of annual debt amortization under our ship mortgage facility.

We believe that cash on hand, including cash equivalents and marketable securities, cash available from future operations and our credit facilities will provide sufficient liquidity to fund our operations for at least the next 12 months. Because of our significant interest expense, cash flows are expected to be negative and reduce our liquidity in 2011, but to a lesser extent during the third and fourth quarters than during the first six months of 2011. In addition to interest, cash requirements include, among other things, capital expenditures, working capital needs, debt amortization and other contractual obligations. Additionally, we may consider selective strategic transactions and alliances that we believe create value, including mergers and acquisitions, joint ventures, partnerships or other business combinations, restructurings and dispositions. Transactions of these types, if any, may result in material cash expenditures or proceeds.

Despite our present liquidity position, some uncertainty exists as to whether we will have sufficient cash flows to weather a significantly extended downturn or further significant decrease in demand for our products. As discussed above, during the last several years, we took actions to reduce costs and increase our liquidity. We will continue our efforts to maintain our financial flexibility, but there can be no assurance that our efforts will be sufficient to withstand the impact of extended negative economic conditions. Under those conditions, our funds from operations and the other sources referenced above may not be sufficient to fund our operations or pursue strategic transactions, and we may be required to seek alternative sources of financing. There is no assurance, however, that we will be able to obtain financing on acceptable terms, or at all.

CASH FLOWS

The following table presents a summary of our cash flows:

	Six Months ended June 30,	
(millions)	2011	2010
Net cash provided by (used for):		
Operating activities	$ (154)	$ (121)
Investing activities	(71)	(153)
Financing activities	(6)	(4)
Effect of exchange rate changes on cash	4	(2)
Net decrease in cash and cash equivalents	$ (227)	$ (280)

Operating Activities: The variation between the first six months of 2011 and the first six months of 2010 primarily reflected a $40 million increase in cash outflow for working capital in the 2011 period compared to the 2010 period.

Investing Activities: The variation between the first six months of 2011 and the first six months of 2010 primarily reflected net purchases of marketable securities of $45 million in the 2011 period compared with net purchases of $145 million in the first six months of 2010. This decrease was partially offset by a $14 million increase in capital expenditures compared to the 2010 period.

Financing Activities: The variation between the first six months of 2011 and the first six months of 2010 reflected a $2 million increase in the amount recorded as repurchases of common stock. Shares are withheld from employees in connection with the vesting of restricted stock units in an amount equal to their withholding tax obligations, which we satisfy in cash.

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CAPITAL EXPENDITURES

Capital spending amounted to $25 million in the first six months of 2011 compared with $11 million in the first six months of 2010. Because of the high level of investment that we made in our operations in 2006 through 2008 and the current market environment, we plan to limit our capital spending in 2011 to approximately $50 million. Approved capital expenditures for the replacement, modernization and expansion of operations totaled $240 million as of June 30, 2011 compared with $237 million as of December 31, 2010. Approved expenditures as of June 30, 2011 included $209 million for construction of a new, low-cost gypsum wallboard plant in Stockton, Calif. Commencement of construction of this facility has been delayed until after 2012, with the actual timing dependent on market conditions. Its cost will be reassessed when construction is considered ready for commencement. We expect to fund our capital expenditures program with cash from operations or cash on hand and, if determined to be appropriate and they are available, borrowings under our revolving credit facility or other alternative financings.

WORKING CAPITAL

As of June 30, 2011, working capital (current assets less current liabilities) amounted to $795 million, and the ratio of current assets to current liabilities was 2.52-to-1. As of December 31, 2010, working capital amounted to $908 million, and the ratio of current assets to current liabilities was 2.72-to-1.

Cash and Cash Equivalents and Marketable Securities: As of June 30, 2011, we had $725 million of cash and cash equivalents and marketable securities compared with $769 million as of March 31, 2011 and $907 million as of December 31, 2010. Uses of cash during the first six months of 2011 primarily included $97 million for interest payments, $24 million paid for severance and other obligations associated with restructuring activities, $25 million for capital expenditures plus an additional $7 million for capital expenditures accrued in 2010 and $8.5 million for state and foreign tax payments.

Receivables: As of June 30, 2011, receivables were $380 million, up $53 million, or 16%, from $327 million as of December 31, 2010. This increase primarily reflected a 20% increase in consolidated net sales in June 2011 compared with December 2010.

Inventories: As of June 30, 2011, inventories were $313 million, up $23 million, or 8%, from $290 million as of December 31, 2010 reflecting an increase in finished goods and work-in-progress due to the seasonal increase in business in the second quarter compared to the fourth quarter.

Accounts Payable: As of June 30, 2011, accounts payable were $234 million, up $16 million, or 7%, from $218 million as of December 31, 2010 primarily due to a 23% increase in cost of goods sold in June 2011 compared with December 2010.

Accrued Expenses: As of June 30, 2011, accrued expenses were $278 million, down $16 million, or 5%, from $294 million as of December 31, 2010. The lower level of accrued expenses primarily reflected a $14 million decrease in accruals for obligations associated with restructuring activities.

MARKETABLE SECURITIES

Marketable securities that we invest in 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) on our condensed consolidated balance sheets. The realized and unrealized gains and losses for the six months ended June 30, 2011 were immaterial. See Note 6 to the condensed consolidated financial statements for additional information regarding our investments in marketable securities.

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DEBT

Total debt, consisting of senior notes, convertible senior notes, industrial revenue bonds and outstanding borrowings under our ship mortgage facility, amounted to $2.329 billion ($2.306 billion, net of debt discount of $23 million) as of June 30, 2011 and $2.331 billion ($2.308 billion, net of debt discount of $23 million) as of December 31, 2010. As of June 30, 2011 and during the quarter then ended, there were no borrowings under our revolving credit facility or CGC s credit facility. See Note 8 to the condensed consolidated financial statements for additional information about our debt.

Realization of Deferred Tax Asset

As of June 30, 2011, we had federal net operating loss, or NOL, carryforwards of approximately $1.7 billion that are available to offset future federal taxable income and will expire in the years 2026 through 2031. In addition, as of that date, we had federal alternative minimum tax credit carryforwards of approximately $52 million that are available to reduce future regular federal income taxes over an indefinite period.

As of June 30, 2011, we had a gross deferred tax asset related to our state NOLs and tax credit carryforwards of $282 and will expire in the years 2011-2031. We also had NOL and tax credit carryforwards in various foreign jurisdictions in the amount of $5 million as of June 30, 2011 against a portion of which we have historically maintained a valuation allowance.

For the six months ended June 30, 2011, we established an additional valuation allowance of $96 million against our deferred tax assets primarily due to the first and second quarter losses. As a result we increased our deferred tax assets valuation allowance to $980 million as of June 30, 2011. Recording this allowance will have no impact on our ability to utilize our U.S. federal and state NOL and tax credit carryforwards to offset future U.S. profits. We continue to believe that we ultimately will have sufficient U.S. profitability during the remaining NOL and tax credit carryforward periods to realize substantially all of the economic value of the federal NOLs and some of the state NOLs before they expire. In future periods, the valuation allowance can be reversed based on sufficient evidence indicating that it is more likely than not that a portion of our deferred tax assets will be realized.

See Note 14 to the condensed consolidated financial statements for additional information regarding income tax matters.

Legal Contingencies

We are named as defendants in litigation arising from our operations, including claims and lawsuits arising from the operation of our vehicles and claims arising from product warranties, workplace or job site injuries, and general commercial disputes. This litigation includes multiple lawsuits, including class actions, relating to Chinese-manufactured drywall distributed by L&W Supply Corporation in the southeastern United States in 2006 and 2007.

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.

We believe that appropriate accruals 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 the 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.

See Note 16 to the condensed consolidated financial statements for additional information regarding litigation matters.

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Critical Accounting Policies

The preparation of our financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the periods presented. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which we filed with the Securities and Exchange Commission on February 11, 2011, includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenues or expenses during the first six months of 2011.

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.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 related to management s expectations about future conditions. Actual business, market or other conditions may differ from management s expectations and, accordingly, may affect our sales and profitability or other results and liquidity. Actual results may differ due to various other factors, including:

- economic conditions, such as the levels of new home and other construction activity, employment levels, the availability of mortgage, construction and other financing, mortgage and other interest rates, housing affordability and supply, the levels of foreclosures and home resales, currency exchange rates and consumer confidence;
- capital markets conditions and the availability of borrowings under our credit agreement or other financings;
- competitive conditions, such as price, service and product competition;
- shortages in raw materials;
- changes in raw material, energy, transportation and employee benefit costs;
- the loss of one or more major customers and our customers ability to meet their financial obligations to us;
- capacity utilization rates for us and the industry;
- changes in laws or regulations, including environmental and safety regulations;
- the outcome in contested litigation matters;

the effects of acts of terrorism or war upon domestic and international economies and financial markets; and
acts of God.

We assume no obligation to update any forward-looking information contained in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use derivative instruments to manage selected commodity price and foreign currency exposures. We do not use derivative instruments for speculative trading purposes, and we typically do not hedge beyond five years.

COMMODITY PRICE RISK

We use swap and option contracts to manage our exposure to fluctuations in commodity prices associated with anticipated purchases of natural gas. Currently, a portion of our anticipated purchases of natural gas are hedged for 2011 and 2012. The notional amount of these hedge contracts was $55 million as of June 30, 2011. We review our positions regularly and make adjustments as market and business conditions warrant. A sensitivity analysis was prepared to estimate the potential change in the fair value of our natural gas hedge contracts assuming a hypothetical 10% change in market prices. Based on the results of this analysis, which may differ from actual results, the potential change in the fair value of our natural gas hedge contracts as of June 30, 2011 was $2 million. This analysis does not consider the underlying exposure.

FOREIGN CURRENCY EXCHANGE RISK

We have a foreign exchange forward contract in place to hedge changes in the value of an intercompany loan to a foreign subsidiary due to changes in foreign exchange rates. The notional amount of this contract was $8 million as of June 30, 2011, and it matures August 26, 2011. As of June 30, 2011, the fair value of this contract was an unrealized loss of $1 million.

We also have foreign exchange forward contracts to hedge purchases of products and services denominated in non-functional currencies. The notional amount of these contracts was $59 million as of June 30, 2011, and they mature by March 28, 2012. The fair value of these contracts was a $5 million unrealized loss as of June 30, 2011. A sensitivity analysis was prepared to estimate the potential change in the fair value of our foreign exchange forward contracts assuming a hypothetical 10% change in foreign exchange rates. Based on the results of this analysis, which may differ from actual results, the potential change in the fair value of our foreign exchange forward contracts as of June 30, 2011 was $6 million. This analysis does not consider the underlying exposure.

INTEREST RATE RISK

As of June 30, 2011, most of our outstanding debt was fixed-rate debt. A sensitivity analysis was prepared to estimate the potential change in interest expense assuming a hypothetical 100-basis-point increase in interest rates. Based on the results of this analysis, which may differ from actual results, the potential change in interest expense would be immaterial.

See Note 9 to the condensed consolidated financial statements for additional information regarding our financial exposures.

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ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, or the Act), have concluded that, as of the end of the quarter covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Act) identified in connection with the evaluation required by Rule 13a-15(d) promulgated under the Act that occurred during the fiscal quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Part I, Item 1, Note 16 to the condensed consolidated financial statements for additional information regarding legal proceedings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Pursuant to our Deferred Compensation Program for Non-Employee Directors, two of our non-employee directors deferred their quarterly retainers for service as directors that were payable on June 30, 2011 into a total of approximately 2,979 deferred stock units. These units will increase or decrease in value in direct proportion to the market value of our common stock and will be paid in cash or shares of common stock, at the director s option, following termination of service as a director. The issuance of these deferred stock units was effected through a private placement under Section 4(2) of the Securities Act of 1933, as amended, and was exempt from registration under Section 5 of that Act.

ITEM 5. OTHER INFORMATION

FREQUENCY OF VOTE ON COMPENSATION OF NAMED EXECUTIVE OFFICERS

At our annual meeting of stockholders held in May of this year, the recommendation of our Board of Directors to hold an advisory vote regarding the compensation of our named executive officers every three years received the support of an almost two-thirds majority of the votes cast by our stockholders. Taking into consideration that support, the Board of Directors has determined that future stockholder advisory votes regarding the compensation of our named executive officers will be held every three years until the next stockholder advisory vote regarding the frequency of that advisory vote on compensation. The next stockholder advisory vote regarding that frequency is not required to be held until our 2017 annual meeting of stockholders. Accordingly, the next stockholder advisory vote regarding the compensation of our named executive officers is expected to be held at our 2014 annual meeting

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of stockholders.

MINE SAFETY

The operation of our nine mines and quarries in the United States is subject to regulation and inspection under the Federal Mine Safety and Health Act of 1977, or Safety Act. From time to time, inspection of our mines and quarries and their operation results in our receipt of citations or orders alleging violations of health or safety standards or other violations under the Safety Act. We are usually able to resolve the matters identified in the citations or orders with little or no assessments or penalties.

Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires that we disclose specified information about mine health and safety in our periodic reports filed with the Securities and Exchange Commission. The disclosure requirements set forth in Section 1503 refer to, and are based on, the safety and health requirements applicable to mines under the Safety Act which is administered by the U.S. Labor Department s Mine Safety and Health Administration, or MSHA. Under the Safety Act, MSHA is required to inspect surface mines at least twice a year and underground mines at least four times a year to determine whether there is compliance with health and safety standards or with any citation, order or decision issued under the Safety Act and whether an imminent danger exists. MSHA also conducts spot inspections and inspections pursuant to miners complaints.

If violations of safety or health standards are found, MSHA inspectors will issue citations to the mine operators. Among other activities under the Safety Act, MSHA also assesses and collects civil monetary penalties for violations of mine safety and health standards.

In addition, an independent adjudicative agency, the Federal Mine Safety and Health Review Commission, or FMSHRC, provides administrative trial and appellate review of legal disputes arising under the Safety Act. Most cases deal with civil penalties proposed by MSHA to be assessed against mine operators and address whether the alleged safety and health violations occurred, as well as the appropriateness of proposed penalties.

During the quarter ended June 30, 2011, we received 15 citations alleging health and safety violations that could significantly and substantially contribute to the cause and effect of a mine safety or health hazard under the Safety Act. We have received proposed assessments from MHSA with respect to 11 of those citations. The total dollar value of proposed assessments from MSHA with respect to those citations was $6,604. We have resolved two of the proposed assessments through payments of penalties aggregating $200. The other thirteen proposed assessments aggregating $6,404 are being contested or otherwise remain outstanding. No assessment has yet been made with respect to 1 of the citations. Set forth below is information with respect to the gypsum mines with respect to which citations were received during the quarter ended June 30, 2011:

Location of Mine/Quarry	Number of Citations 4/1/11 - 6/30/11	Proposed Assessments 4/1/11 to Date	Outstanding Assessments as of 6/30/11
Alabaster, Mich.		$	$
Fort Dodge, Iowa			
Plaster City, Calif.			
Shoals, Ind.			
Sigurd, Utah			
Southard, Okla.	7	1,479	1,479
Sperry, Iowa	6	4,925	4,925
Spruce Pine, N.C.	2	200	
Sweetwater, Texas			
Totals	15	$ 6,604	$ 6,404

We did not receive any citations for unwarrantable failure to comply with health and safety standards under the Safety Act, any orders under the Safety Act regarding withdrawal from a mine as a result of failure to abate in a timely manner a health and safety violation for which a citation was issued or any imminent danger orders under the

Safety Act during the quarter ended June 30, 2011. Also, there were no flagrant violations and no mining-related fatalities during the second quarter of 2011.

ITEM 6. EXHIBITS

4.1 Certificate of Correction of the Restated Certificate of Incorporation of USG Corporation*

4.2 Registration Rights Agreement, dated as of June 21, 2011, between USG Corporation and Evercore Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K dated June 24, 2011)

31.1 Rule 13a-14(a) Certifications of USG Corporation s Chief Executive Officer *

31.2 Rule 13a-14(a) Certifications of USG Corporation s Chief Financial Officer *

32.1 Section 1350 Certifications of USG Corporation s Chief Executive Officer *

32.2 Section 1350 Certifications of USG Corporation s Chief Financial Officer *

101 The following financial information from USG Corporation s Quarterly Report on Form 10-Q for the three months and six months ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (1) the condensed consolidated statements of operations for the three months and six months ended June 30, 2011 and 2010, (2) the condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010, (3) the condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010 and (4) notes to the condensed consolidated financial statements. *

* Filed or furnished herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USG CORPORATION

By /s/ James S. Metcalf

James S. Metcalf,
President and Chief Executive Officer

By /s/ Richard H. Fleming

Richard H. Fleming,
Executive Vice President and
Chief Financial Officer

By /s/ William J. Kelley Jr.

William J. Kelley Jr.,
Vice President and Controller

August 3, 2011

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* Filed or furnished herewith