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

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

For the quarterly period ended March 31, 2015
OR

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

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

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

Registrant's telephone number, including area code (312) 436-4000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
The number of shares of the registrant's common stock outstanding as of March 31, 2015 was 145,381,709.

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

(millions, except per-share and share data)	Three months ended March 31,	
	2015	2014
Net sales	$909	$850
Cost of products sold	756	707
Gross profit	153	143
Selling and administrative expenses	77	77
Operating profit	76	66
Income from equity method investments	8	3
Interest expense	(43)	(47)
Interest income	1	1
Loss on extinguishment of debt	(19)	—
Gain on deconsolidation of subsidiaries and consolidated joint ventures	—	27
Other expense, net	(1)	—
Income before income taxes	22	50
Income tax benefit (expense)	2	(5)
Net income	$24	$45
Basic earnings per common share	$0.16	$0.33
Diluted earnings per common share	$0.16	$0.32
Average common shares	145,381,269	137,765,694
Average diluted common shares	147,176,197	146,920,819

See accompanying Notes to Consolidated Financial Statements.

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

(millions)	Three months ended March 31, 2015	2014
Net income	$24	$45
Other comprehensive income (loss), net of tax:		
Derivatives qualifying as cash flow hedges:		
Gain/(loss) on derivatives qualifying as cash flow hedges, net of tax of $1 and $0, respectively	(1)	5
Less: Reclassification adjustment for gain (loss) on derivatives included in net income, net of tax of $0 in both periods	(2)	2
Net derivatives qualifying as cash flow hedges	1	3
Pension and postretirement benefits:		
Changes in pension and postretirement benefits, net of tax of $1 and $0, respectively	6	3
Less: Amortization of prior service credit (cost) included in net periodic pension cost, net of tax (benefit) of ($1) and $0, respectively	(1)	3
Net pension and postretirement benefits	7	—
Foreign currency translation:		
Changes in foreign currency translation, net of tax of $0 in both periods	(34)	(4)
Less: Translation gains realized upon the deconsolidation of foreign subsidiaries, net of tax of $0 in both periods	—	5
Net foreign currency translation	(34)	(9)
Other comprehensive loss, net of tax	$(26)	$(6)
Comprehensive income (loss)	$(2)	$39

See accompanying Notes to Consolidated Financial Statements.

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USG CORPORATION
CONSOLIDATED BALANCE SHEETS

(millions, except share and per share data)	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	$153	$ 228
Short-term marketable securities	61	96
Restricted cash	40	1
Receivables (net of reserves - $20 and $22)	456	404
Inventories	328	329
Income taxes receivable	3	3
Deferred income taxes	43	43
Other current assets	80	48
Total current assets	1,164	1,152
Long-term marketable securities	28	58
Property, plant and equipment (net of accumulated depreciation and depletion - $1,901 and $1,885)	1,849	1,908
Deferred income taxes	17	19
Equity method investments	723	735
Other assets	125	122
Total assets	$3,906	$ 3,994
Liabilities and Stockholders' Equity		
Accounts payable	$236	$ 290
Accrued expenses	199	220
Current portion of long-term debt	4	4
Deferred income taxes	2	—
Income taxes payable	1	1
Litigation settlement accrual	48	48
Total current liabilities	490	563
Long-term debt	2,202	2,205
Deferred income taxes	61	61
Pension and other postretirement benefits	490	491
Other liabilities	260	266
Total liabilities	3,503	3,586
Preferred stock – $1 par value, authorized 36,000,000 shares; outstanding - none	—	—
Common stock – $0.10 par value; authorized 200,000,000 shares; issued: 2015 - 145,382,000 shares; 2014 - 144,768,000 shares	14	14
Treasury stock at cost – 2015 - 188,000 shares; 2014 - 0 shares	(4)	—
Additional paid-in capital	3,015	3,014
Accumulated other comprehensive loss	(364)	(338)
Retained earnings (accumulated deficit)	(2,259)	(2,283)
Stockholders' equity of parent	402	407
Noncontrolling interest	1	1
Total stockholders' equity including noncontrolling interest	403	408
Total liabilities and stockholders' equity	$3,906	$ 3,994

See accompanying Notes to Consolidated Financial Statements.

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USG CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(millions)	Three months ended March 31, 2015	2014
Operating Activities		
Net income	$24	$45
Adjustments to reconcile net income to net cash:		
Depreciation, depletion and amortization	36	38
Loss on extinguishment of debt	19	—
Share-based compensation expense	3	5
Deferred income taxes	1	1
Income from equity method investments	(8)	(3)
Gain on deconsolidation of subsidiaries and consolidated joint ventures	—	(27)
(Increase) decrease in working capital, net of deconsolidation of subsidiaries and consolidated joint ventures:		
Receivables	(54)	(56)
Income taxes receivable	(1)	—
Inventories	(2)	(12)
Other current assets	1	(2)
Payables	(43)	(20)
Accrued expenses	(23)	(20)
Decrease in other assets	—	1
Increase (decrease) in pension and other postretirement benefits	6	(3)
Decrease in other liabilities	(4)	(9)
Other, net	3	(2)
Net cash used for operating activities	$(42)	$(64)
Investing Activities		
Purchases of marketable securities	(21)	(49)
Sales or maturities of marketable securities	87	53
Capital expenditures	(29)	(34)
Net proceeds from asset dispositions	1	—
Investment in joint ventures, including $23 of cash of contributed subsidiaries in 2014	—	(557)
Insurance proceeds	—	2
Deposit of restricted cash	(39)	—
Net cash used for investing activities	$(1)	$(585)
Financing Activities		
Issuance of debt	350	3
Repayment of debt	(368)	(1)
Payment of debt issuance fees	(6)	—
Issuance of common stock	3	2
Repurchases of common stock to satisfy employee tax withholding obligations	(8)	(5)
Net cash used for financing activities	$(29)	$(1)
Effect of exchange rate changes on cash	(3)	(1)

Net decrease in cash and cash equivalents	$(75)	$(651)
Cash and cash equivalents at beginning of period	228	810
Cash and cash equivalents at end of period	$153	$159
Supplemental Cash Flow Disclosures:		
Interest paid, net of capitalized interest	$50	$41
Income taxes paid, net	1	6
Noncash Investing and Financing Activities:		
Amount in accounts payable for capital expenditures	8	6
Contribution of wholly-owned subsidiaries and joint venture investments as consideration for investment in USG Boral Building Products	—	121

See accompanying Notes to Consolidated Financial Statements.

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USG CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

1. Organization, Consolidation and Presentation of Financial Statements

PREPARATION OF FINANCIAL STATEMENTS

We prepared the accompanying unaudited consolidated financial statements of USG Corporation in accordance with applicable United States Securities and Exchange Commission, or SEC, guidelines pertaining to interim financial information. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ materially from those estimates. In the opinion of our management, the financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our financial results for the interim periods. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results of operations to be expected for the entire year.

Our investments with Boral Limited in the 50/50 joint ventures, USG Boral Building Products or UBBP, commenced on February 27, 2014, and as a result, one month of results of UBBP was recorded in our accompanying consolidated statement of operations for the three months ended March 31, 2014. See Note 2 for further description of our investment in UBBP.

Effective April 1, 2014, we changed the composition of our reportable segments to reflect the change in management over our businesses in Mexico and Latin America. Additionally, with the contribution of our businesses in the Asia-Pacific region, India and Oman into UBBP, we have determined UBBP to be our fourth reportable segment. Accordingly, our segments are now structured around our key products and business units: (1) Gypsum, (2) Ceilings, (3) Distribution and (4) UBBP. As a result of these changes, our Mexico and Latin America businesses have been combined, with their Gypsum results included within our Gypsum segment, previously referred to as North American Gypsum, and their Ceiling results included within our Ceilings segment, previously referred to as Worldwide Ceilings. Our prior period results have been recast to reflect these changes and present comparative year over year results. See Note 2, Equity Method Investments, and Note 3, Segments.

Our Gypsum reportable segment is an aggregation of the operating segments of the gypsum businesses in the United States, Canada, Mexico, and Latin America, our mining operation in Little Narrows, Nova Scotia, Canada, and our shipping company. Our Ceilings reportable segment is an aggregation of the operating segments of the ceilings businesses in the United States, Canada, Mexico, Latin America and, through February 27, 2014, the businesses in the Asia-Pacific region. Gypsum manufactures USG SHEETROCK® brand gypsum wallboard and related products. Ceilings manufactures ceiling tile in the United States and ceiling grid in the United States, Canada and, through February 27, 2014, the Asia-Pacific region. Distribution distributes gypsum wallboard, drywall metal, ceilings products, joint compound and other building products throughout the United States. UBBP manufactures, distributes and sells certain building products, mines raw gypsum and sells natural and synthetic gypsum throughout Asia, Australasia and the Middle East.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” Accounting Standards Update, or ASU, 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. There are two transition methods available under the new standard, either cumulative effect or retrospective. The standard will be effective for us in the first quarter of 2017, with early adoption not permitted. We will adopt the new standard using the modified retrospective approach, which requires the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. We do not expect that the adoption of ASU 2014-09 will have a significant impact to our consolidated financial statements or disclosures.

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

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. The standard will be effective for us in the first quarter of 2016, with early adoption permitted. Upon adoption, we would reclassify our deferred debt issuance costs from other assets to long term debt. If adopted as of March 31, 2015, we would have recorded a reduction in both other assets and long-term debt of $21 million and would have provided additional disclosure.

2. Equity Method Investments

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

(dollars in millions)	March 31, 2015 Carrying Value	March 31, 2015 Ownership Percentage	December 31, 2014 Carrying Value	December 31, 2014 Ownership Percentage
USG Boral Building Products	$681	50%	$689	50%
Other equity method investments	42	33% - 50%	46	33% - 50%
Total equity method investments	$723		$735	

Investment in USG Boral Building Products ("UBBP")

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

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

In the event certain performance targets are satisfied by UBBP, we will be obligated to pay Boral scheduled earnout payments in an aggregate amount up to $75 million, comprised first of $25 million based on performance during the first three years after closing and then up to $50 million based on performance during the first five years after closing. We recorded a liability of $23 million representing the present value of the first earnout payment, which is included in other liabilities on our accompanying consolidated balance sheets as of March 31, 2015 and December 31, 2014. We are not currently required under applicable accounting guidance to record a liability for the second earnout payment and, as such, a liability has not been recorded on our accompanying consolidated balance sheets as of March 31, 2015 and December 31, 2014.

We account for our 50% investment in UBBP using the equity method of accounting, and we initially measured its carrying value at cost of approximately $676 million as of February 27, 2014. Our existing wholly-owned subsidiaries and consolidated variable interest entities that were contributed into the joint ventures were deconsolidated resulting in a gain of $27 million, which is included in our consolidated statement of operations for the three months ended

March 31, 2014. Approximately $11 million of the gain relates to the remeasurement of our retained investment in the contributed subsidiaries to a fair value, determined using a discounted cash flow model with several inputs, including a weighted-average discount rate of approximately 11% and a weighted-average long-term growth rate of approximately 2%.

All of our investments accounted for under the equity method of accounting are initially recorded at cost, and subsequently adjusted for our share of the net income or loss and cash contributions and distributions to or from these entities.

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Because the underlying net assets in our investments are denominated in a foreign currency, translation gains or losses will impact the recorded value of our investments and, for the three months ended March 31, 2015, resulted in a net loss of $16 million recorded in other comprehensive income (loss). As of March 31, 2015, the amount of consolidated retained earnings which represents undistributed earnings from UBBP is $41 million.
Summarized financial information for our equity method investments is as follows:

	Three months ended March 31,	
(in millions)	2015	2014 (a)
USG Boral Building Products:		
Net sales	$228	$89
Gross profit	61	22
Operating profit	23	10
Income from continuing operations	26	9
Net income	18	7
Net income attributable to USG Boral Building Products	16	6
USG share of income from investment accounted for using the equity method	8	3
Other equity method investments:		
USG share of income from investments accounted for using the equity method	—	—
Total income from equity method investments	8	3

(a) Operating results are presented for UBBP for the one month ended March 31, 2014.

3. Segments

As discussed in Note 1, effective April 1, 2014, we changed the composition of our reportable segments. Prior-year results have been recast to conform with the new presentation of reportable segments. Our operations are organized into four reportable segments: Gypsum (previously North American Gypsum), Ceilings (previously Worldwide Ceilings), Distribution (previously Building Products Distribution) and UBBP. See Note 2 for segment results for UBBP. Segment results for our Gypsum, Distribution and Ceilings segments were as follows:

	Three months ended March 31,	
(millions)	2015	2014 (b)
Net Sales:		
Gypsum	$577	$545
Ceilings [(a)]	123	125
Distribution	334	300
Eliminations	(125)	(120)
Total	$909	$850
Operating Profit (Loss):		
Gypsum	$68	$65
Ceilings [(a)]	21	15
Distribution	4	1
Corporate	(23)	(21)
Eliminations	6	6
Total	$76	$66

(a) Ceilings' net sales and operating profit for the three months ended March 31, 2014 includes the results, through February 27, 2014, of our wholly-owned subsidiaries and consolidated joint ventures that were contributed to UBBP.

(b) Net sales and operating profit (loss) have been recast for the three months ended March 31, 2014 to conform with the new presentation of reportable segments.

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4. Earnings Per Share

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

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

	Three months ended March 31,	
(millions, except per-share data)	2015	2014
Net income	24	45
Effect of dilutive securities - RSUs, MSUs, performance shares and stock options	—	—
Effect of dilutive securities - 10% convertible senior notes	—	2
Effect of dilutive securities - Deferred compensation program for non-employee directors	—	—
Income available to shareholders	$24	$47
Average common shares	145.4	137.8
Dilutive RSUs, MSUs, performance shares and stock options	1.6	2.5
Common shares issuable upon conversion of our 10% convertible senior notes	—	6.6
Deferred shares associated with a deferred compensation program for non-employee directors	0.2	—
Average diluted common shares	147.2	146.9
Earnings per average common share	$0.16	$0.33
Earnings per average diluted common share	$0.16	$0.32

MSUs, performance shares, RSUs, and stock options that were not included in the computation of diluted earnings per share for those periods because their inclusion would be anti-dilutive were as follows:

	Three months ended March 31,	
(millions, common shares)	2015	2014
MSUs, performance shares, RSUs and stock options	2.0	2.1

5. Marketable Securities

Marketable securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive loss on our accompanying consolidated balance sheets. Proceeds received from sales and maturities of marketable securities were $87 million for the three months ended March 31, 2015. Our investments in marketable securities consisted of the following:

	As of March 31, 2015		As of December 31, 2014	
(millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Corporate debt securities	$57	$57	$93	$93
U.S. government and agency debt securities	6	6	22	22
Asset-backed debt securities	13	13	17	17
Certificates of deposit	11	11	18	18
Municipal debt securities	2	2	4	4
Total marketable securities	$89	$89	$154	$154

The realized and unrealized gains and losses for the three months ended March 31, 2015 and 2014 were immaterial. Cost basis for securities sold are determined on a first-in-first-out basis.

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Contractual maturities of marketable securities as of March 31, 2015 were as follows:

(millions)	Amortized Cost	Fair Value
Due in 1 year or less	$61	$61
Due in 1-5 years	28	28
Total marketable securities	$89	$89

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

6. Intangible Assets

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

	As of March 31, 2015			As of December 31, 2014		
(millions)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible Assets with Definite Lives:						
Customer relationships	$70	$ (56)	$14	$70	$ (54)	$16
Other	9	(7)	2	9	(7)	2
Total	$79	$ (63)	$16	$79	$ (61)	$18

Total amortization expense was $2 million for the three months ended March 31, 2015 and 2014, respectively.

Estimated amortization expense for the remainder of 2015 and for future years is as follows:

(millions)	2015	2016	2017	2018 and thereafter
Estimated future amortization expense	$6	$7	$2	$1

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

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

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

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7. Debt

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

(millions)	March 31, 2015	December 31, 2014
5.5% senior notes due 2025	$350	$—
5.875% senior notes due 2021	350	350
6.3% senior notes due 2016	500	500
7.75% senior notes due 2018, net of discount	500	500
7.875% senior notes due 2020, net of discount	249	249
8.375% senior notes due 2018	—	350
Ship mortgage facility (includes current portion of long-term debt: 2015 - $4, 2014 - $4)	18	21
Industrial revenue bonds (due 2028 through 2034)	239	239
Total	$2,206	$2,209

REPURCHASE OF SENIOR NOTES

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

ISSUANCE OF SENIOR NOTES

On February 24, 2015 we issued $350 million of 5.500% senior notes due March 1, 2025, or the 2025 Senior Notes. The net proceeds from the issuance of the 2025 Senior Notes and cash on hand were used to fund the repurchases of the 2018 Senior Notes and all related costs and expenses.

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

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

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

SHIP MORTGATE FACILITY

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

original loan facility agreement. See Note 17 for discussion of GTL and related subsequent event.
CREDIT FACILITY
Taking into account the most recent borrowing base calculation delivered under the credit facility, which reflects trade receivables and inventory as of March 31, 2015, and outstanding letters of credit, borrowings available under the credit facility were approximately $341 million, including $50 million for CGC. As of March 31, 2015 and during the quarter then-ended,

there were no borrowings under the facility. Had there been any borrowings as of that date, the applicable interest rate would have been 2.02% for loans in the US and 2.75% for loans in Canada. Outstanding letters of credit totaled $54 million as of March 31, 2015.

The fair value of our debt was approximately $2.362 billion as of March 31, 2015 and $2.338 billion as of December 31, 2014. The fair values were based on quoted prices for identical or similar liabilities in markets that are not active or valuation models in which all significant inputs and value drivers are observable and, as a result, are classified as Level 2 inputs. See Note 9 for further discussion on fair value measurements and classifications.

As of March 31, 2015, we were in compliance with the covenants contained in our credit facilities.

8. Derivative Instruments

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

COMMODITY DERIVATIVE INSTRUMENTS

As of March 31, 2015, we had 22 million mmBTUs (millions of British Thermal Units) in aggregate notional amount of outstanding natural gas swap contracts to hedge forecasted purchases. All of these contracts mature by December 31, 2017. For contracts designated as cash flow hedges, the net unrealized loss that remained in accumulated other comprehensive income (loss), or AOCI, as of March 31, 2015 was $22 million and as of December 31, 2014 was $20 million. No ineffectiveness was recorded on contracts designated as cash flow hedges in the first three months of both 2015 and 2014. Gains and losses on contracts designated as cash flow hedges are reclassified into earnings when the underlying forecasted transactions affect earnings. For contracts designated as cash flow hedges, we reassess the probability of the underlying forecasted transactions occurring on a quarterly basis. Changes in fair value on contracts not designated as cash flow hedges are recorded to earnings. The fair value of those contracts not designated as cash flow hedges was a $5 million unrealized loss as of both March 31, 2015 and December 31, 2014.

FOREIGN EXCHANGE DERIVATIVE INSTRUMENTS

We have foreign exchange forward contracts to hedge forecasted purchases of products and services denominated in foreign currencies. The notional amount of these contracts was $115 million as of March 31, 2015, and they mature by December 23, 2016. These forward contracts are designated as cash flow hedges and no ineffectiveness was recorded in the first three months of both 2015 and 2014. Gains and losses on the contracts are reclassified into earnings when the underlying transactions affect earnings. The fair value of these contracts that remained in AOCI was an unrealized gain of $8 million and $3 million as of March 31, 2015 and December 31, 2014, respectively.

COUNTERPARTY RISK, MASTER NETTING ARRANGEMENTS AND BALANCE SHEET OFFSETTING

We are exposed to credit losses in the event of nonperformance by the counterparties to our derivative instruments. As of March 31, 2015, our derivatives were in a $19 million net liability position. All of our counterparties have investment grade credit ratings; accordingly, we anticipate that they will be able to fully satisfy their obligations under the contracts.

All of our derivative contracts are governed by master netting agreements negotiated between us and the counterparties that reduce our counterparty credit exposure. The agreements outline the conditions (such as credit ratings and net derivative fair values) upon which we, or the counterparties, are required to post collateral. As required by certain of our agreements, we had $25 million of collateral posted with our counterparties related to our derivatives as of March 31, 2015. Amounts paid as cash collateral are included in receivables on our accompanying consolidated balance sheet.

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

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FINANCIAL STATEMENT INFORMATION

The following are the pretax effects of derivative instruments on the consolidated statements of operations for the three months ended March 31, 2015 and 2014.

(millions)	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion) 2015	2014	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) 2015	2014
Derivatives in Cash Flow Hedging Relationships					
Commodity contracts	$(5)	$3	Cost of products sold	$(3)	$1
Foreign exchange contracts	5	2	Cost of products sold	1	1
Total	$—	$5		$(2)	$2

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

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

(millions)	Balance Sheet Location	Fair Value 3/31/15	12/31/14	Balance Sheet Location	Fair Value 3/31/15	12/31/14
Derivatives in Cash Flow Hedging Relationships						
Commodity contracts	Other current assets	$—	$1	Accrued expenses	$14	$14
Commodity contracts	Other assets	—	—	Other liabilities	8	7
Foreign exchange contracts	Other current assets	7	3	Accrued expenses	—	—
Foreign exchange contracts	Other assets	1	—	Other liabilities	—	—
Total derivatives in cash flow hedging relationships		$8	$4		$22	$21
Derivatives Not Designated as Hedging Instruments						
Commodity contracts	Other current assets	$—	$—	Accrued expenses	$4	$4
Commodity contracts	Other assets	—	—	Other liabilities	1	1
		$—	$—		$5	$5

Total derivatives not designated as hedging instruments						
Total derivatives	Total assets	$8	$4	Total liabilities	$27	$26

As of March 31, 2015, we had no derivatives designated as fair value hedges or net investment hedges.

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9. Fair Value Measurements

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

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

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total	
(millions)	3/31/15	12/31/14	3/31/15	12/31/14	3/31/15	12/31/14	3/31/15	12/31/14
Cash equivalents	$61	$93	$18	$32	$—	$—	$79	$125
Equity mutual funds	4	4	—	—	—	—	4	4
Marketable securities:								
Corporate debt securities	—	—	57	93	—	—	57	93
U.S. government and agency debt securities	—	—	6	22	—	—	6	22
Asset-backed debt securities	—	—	13	17	—	—	13	17
Certificates of deposit	—	—	11	18	—	—	11	18
Municipal debt securities	—	—	2	4	—	—	2	4
Derivative assets	—	—	8	4	—	—	8	4
Derivative liabilities	—	—	(27)	(26)	—	—	(27)	(26)

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10. Employee Retirement Plans

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

	Three months ended March 31,	
(millions)	2015	2014
Pension:		
Service cost of benefits earned	$13	$9
Interest cost on projected benefit obligation	17	16
Expected return on plan assets	(21)	(20)
Net amortization	9	6
Net pension cost	$18	$11
Postretirement:		
Service cost of benefits earned	$1	$1
Interest cost on projected benefit obligation	1	2
Net amortization	(8)	(9)
Net postretirement benefit	$(6)	$(6)

During the first three months of 2015, we made cash contributions of $2 million to the USG Corporation Retirement Plan Trust and $1 million to our pension plan in Canada. We expect to make total contributions to our pension plans in 2015 of approximately $66 million.

11. Share-Based Compensation

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

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

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

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

MARKET SHARE UNITS

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

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

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PERFORMANCE SHARES

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

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

RESTRICTED STOCK UNITS

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

12. Supplemental Balance Sheet Information

INVENTORIES

Total inventories consisted of the following:

(millions)	March 31, 2015	December 31, 2014
Finished goods	$235	$232
Work in progress	37	35
Raw materials	56	62
Total	$328	$329

ASSET RETIREMENT OBLIGATIONS

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

	Three months ended March 31,	
(millions)	2015	2014
Balance as of January 1	$123	$132
Accretion expense	2	2
Liabilities incurred	—	—
Changes in estimated cash flows (a)	—	(10)
Liabilities settled	—	(2)
Foreign currency translation	(3)	(2)
Balance as of March 31	$122	$120

(a) Changes in estimated cash flows for the three months ended March 31, 2014 included changes in estimates primarily for our gypsum quarry and ship loading facility in Windsor, Nova Scotia, Canada, which we permanently closed during the third quarter of 2011, and our mining operation in Little Narrows, Nova Scotia, Canada as a result of receiving regulatory approval of a revised reclamation plan in 2014.

ACCRUED INTEREST

Interest accrued on our debt as of March 31, 2015 and December 31, 2014 was $36 million and $45 million, respectively, and is included in accrued expenses on our accompanying consolidated balance sheets.

ASSETS HELD FOR SALE

Assets held for sale as of March 31, 2015 totaled $35 million, which reflected the two self-unloading ocean vessels owned by Gypsum Transportation Limited, or GTL, and as of December 31, 2014 totaled $5 million, which reflected other indefinite-lived intangible assets. Assets held for sale are classified as other current assets in our accompanying consolidated balance sheets. See Note 17 for discussion of GTL and a related subsequent event.

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13. Accumulated Other Comprehensive Income (Loss)

Changes in the balances of each component of AOCI for the three months ended March 31, 2015 and 2014 were as follows:

	Derivatives		Defined Benefit Plans		Foreign Currency Translation		AOCI	
(millions)	2015	2014	2015	2014	2015	2014	2015	2014
Balance as of January 1	$16	$35	$(302)	$(32)	$(52)	$21	$(338)	$24
Other comprehensive income (loss) before reclassifications, net of tax	(1)	5	6	3	(34)	(4)	(29)	4
Less: Amounts reclassified from AOCI, net of tax	(2)	2	(1)	3	—	5	(3)	10
Net other comprehensive income (loss)	1	3	7	—	(34)	(9)	(26)	(6)
Balance as of March 31	$17	$38	$(295)	$(32)	$(86)	$12	$(364)	$18

Amounts reclassified from AOCI, net of tax, for the three months ended March 31, 2015 and 2014, were as follows:

	Three months ended March 31,	
(millions)	2015	2014
Derivatives		
Net reclassification from AOCI for cash flow hedges included in cost of products sold	$(2)	$2
Less: Income tax expense on reclassification from AOCI included in income tax expense (benefit)	—	—
Net amount reclassified from AOCI	$(2)	$2
Defined Benefit Plans		
Net reclassification from AOCI for amortization of prior service cost included in cost of products sold	$(1)	$2
Net reclassification from AOCI for amortization of prior service cost included in selling and administrative expenses	(1)	1
Less: Income tax expense on reclassification from AOCI included in income tax expense (benefit)	(1)	—
Net amount reclassified from AOCI	$(1)	$3
Foreign Currency Translation		
Net reclassification from AOCI for translation gains realized upon the deconsolidation of foreign subsidiaries included in selling and administrative expenses	$—	$5
Less: Income tax expense on reclassification from AOCI included in income tax expense (benefit)	—	—
Net amount reclassified from AOCI	$—	$5

We estimate that we will reclassify a net $9 million after-tax loss on derivatives from AOCI to earnings within the next 12 months.

14. Oman Investment

In June of 2012, we entered into a strategic partnership with the Zawawi Group in Oman to establish a mining operation by acquiring 55% of Zawawi Gypsum LLC, or ZGL, which holds the mining rights to a gypsum quarry in

Salalah, Oman. Quarry mining operations commenced in October 2013. The second phase of the partnership is a 50/50 manufacturing venture, USG-Zawawi Drywall LLC, or ZDL, to build and operate a low cost wallboard plant in Oman.

We accounted for the acquisition of the mining rights as an asset acquisition and measured our interest in the mining rights at our cost. We determined that both entities were variable interest entities (VIEs), and, as such, we consolidated the VIEs through February 27, 2014 when our interests in ZGL and ZDL were contributed to UBBP. See Note 2, Equity Method Investments.

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15. Income Taxes

In the first quarter of 2015, we recorded an income tax benefit of approximately $2 million from foreign, state and local jurisdictions. In the United States, we are in a net operating loss carryforward position and our deferred income tax assets are subject to a valuation allowance. Therefore, any income or loss before income taxes does not generate a corresponding income tax expense or benefit. Income tax benefit in the current quarter reflects audit closures in certain foreign jurisdictions.

As of March 31, 2015, we had federal net operating loss, or NOL, carryforwards of approximately $1.889 billion that are available to offset future federal taxable income and will expire in the years 2026 through 2032, none of which are subject to Internal Revenue Code limitations under Section 382. In addition, as of that date, we had federal Alternative Minimum Tax, or AMT, credit carryforwards of approximately $45 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 $2.019 billion would need to be generated during the period before their expiration. In addition, we have federal foreign tax credit carryforwards of $8 million that will expire if unused in 2015.

As of March 31, 2015, we had a gross deferred tax asset related to our state NOLs and tax credit carryforwards of $244 million, of which $1 million will expire in 2015. The remainder will expire if unused in years 2016 through 2033. We also had NOL and tax credit carryforwards in various foreign jurisdictions in the amount of $1 million as of March 31, 2015, against which we have maintained a valuation allowance.

During periods prior to 2015, we established a valuation allowance against our deferred tax assets totaling $1.023 billion. During the first three months of 2015, we recorded a decrease in the valuation allowance against our deferred tax assets of $4 million resulting in a deferred tax asset valuation allowance of $1.019 billion as of March 31, 2015.

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. During 2015, we may realize a four year cumulative accounting profit in the U.S. If this occurs, we will also consider all other positive and negative evidence to determine the realizability of our deferred tax assets and the need for a full, or partial, valuation allowance. Any reversal of our valuation allowance will favorably impact our results of operations in the period of reversal.

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 2.67% for March 2015. 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 March 31, 2015, our annual U.S. federal NOL utilization would have been limited to approximately $104 million per year.

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16. Litigation
WALLBOARD PRICING CLASS ACTION LAWSUITS
In late 2012, USG Corporation and United States Gypsum Company were named as defendants in putative class action lawsuits alleging that since at least September 2011, U.S. wallboard manufacturers conspired to fix and raise the price of gypsum wallboard sold in the United States and to effectuate the alleged conspiracy by ending the practice of providing job quotes on wallboard. These lawsuits are consolidated for pretrial proceedings in multi-district litigation in the United States District Court for the Eastern District of Pennsylvania, under the title In re: Domestic Drywall Antitrust Litigation, MDL No. 2437. One group of plaintiffs brings their claims on behalf of a class of entities that purchased gypsum wallboard in the United States directly from any of the defendants or their affiliates from January 1, 2012 to the present. The second group of plaintiffs brings their claims on behalf of indirect purchasers of gypsum wallboard who from January 1, 2012 through the present indirectly purchased wallboard in the United States from the defendants or their affiliates for end use and not for resale. In the fall of 2013, similar lawsuits were filed in Quebec and Ontario courts on behalf of purchasers of wallboard in Canada. These Canadian lawsuits also name as defendants CGC Inc., our Canadian operating subsidiary, as well as other Canadian and U.S. wallboard manufacturers.
USG has denied the allegations made in these wallboard pricing lawsuits, believes these cases are without merit, and that USG’s pricing and selling policies were and are made independently and in full compliance with the law. Class action antitrust litigation in the United States, however, is expensive, protracted, and carries the risk of triple damages and joint and several liability. To avoid the expense, risk and further distraction of management, in October 2014, we entered into settlement agreements in principle with the attorneys representing the direct and indirect purchaser plaintiff classes in the U.S. wallboard pricing lawsuits, for which USG recorded a $48 million charge in the third quarter of 2014. In February 2015, we entered into settlement agreements among the parties that memorialized the October 2014 agreements in principle. Of the $48 million settlement amount, $39.25 million is allocated to the direct purchaser class settlement fund and $8.75 million is allocated to the indirect purchaser class settlement fund. The settlement agreements, in which we deny all wrongdoing, also include releases by participating class members of USG, and its subsidiaries, affiliates, and other related parties, for all conduct concerning any of the matters alleged, or that could have been alleged, in the lawsuits for the time period prior to and including November 30, 2014. Additionally, the settlement agreements grant us the right to terminate the settlement agreements or reduce the settlement amount in the event an agreed percentage of potential class members (determined by their relevant wallboard purchases) opts out of, or elects not to participate in, the settlements.
In the first quarter of 2015, the final versions of the settlement agreements were preliminarily approved by the Court presiding over the multi-district class action litigation. As a result of the Court’s preliminary approval of the class action settlements, we deposited $39.25 million in March 2015 and $8.75 million in April 2015 into settlement fund escrow accounts. In the second quarter of 2015, notice of the settlements will be provided to potential class members who will be given the opportunity to participate in the settlements, or, alternatively, opt out of the settlements by the deadlines specified in the Court’s preliminary approval orders. Persons who opt out of the settlements are not bound by the settlements, and may separately pursue their claims. After the opt out deadlines have passed, the Court will then determine whether to enter final approval of the settlements. The hearing on final approval of the settlements is currently scheduled for July 15, 2015. Assuming the Court enters final approval of the settlements and the settlement agreements have not been terminated due to the number of opt outs exceeding the agreed percentage, USG will have paid a maximum of $48 million to resolve the currently pending U.S. direct and indirect purchaser class action cases. If we are unable to settle the U.S. wallboard class action litigation under the terms set forth in the settlement agreements, or at all, there can be no assurance that the outcome of these lawsuits will not have a material effect on our business, financial condition, operating results or cash flows.
In the first quarter of 2015, USG and seven other wallboard manufacturers were named as defendants in a lawsuit filed in federal court in California by twelve homebuilders asserting individual claims similar to the claims asserted in the U.S. class action lawsuits. The homebuilders’ lawsuit has been transferred to the United States District Court for the Eastern District of Pennsylvania that is presiding over the U.S. class action lawsuits. The filing of this lawsuit indicates that the plaintiffs intend to opt out of the class action settlements preliminarily approved by the Court. Based

on the complaint, it appears that the majority of the homebuilders are asserting claims as indirect, not direct, purchasers. Indirect purchaser antitrust claims typically are resolved for less than direct purchaser claims. It also appears from the complaint that the homebuilder plaintiffs account for approximately 5% or less of total U.S. wallboard purchases during the relevant time period. We believe that the cost, if any, of resolving these homebuilders' claims will not materially increase our exposure from the $48 million agreed to in the class action settlements.

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The settlement of the U.S. class action lawsuits described above does not include the Canadian lawsuits. At this stage of the Canadian lawsuits, we are not able to estimate the amount, if any, of any reasonably possible loss or range of reasonably possible losses. We believe, however, that these Canadian lawsuits will not have a material effect on our business, financial condition, operating results or cash flows.

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. As of both March 31, 2015 and December 31, 2014, we had an accrual of $16 million for our probable and reasonably estimable 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, cert