

USG CORP
Form 10-K
February 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 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

(State or Other Jurisdiction of
Incorporation or Organization)

36-3329400

(I.R.S. Employer
Identification No.)

550 W. Adams Street, Chicago, Illinois
(Address of Principal Executive Offices)

60661-3676
(Zip Code)

Registrant's Telephone Number, Including Area Code: (312) 436-4000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Exchange on Which Registered
New York Stock Exchange
Chicago Stock Exchange

Common Stock, \$0.10 par value

Preferred Stock Purchase Rights (subject to Rights
Agreement dated December 21, 2006, as amended)

New York Stock Exchange
Chicago Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: USG CORP - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the New York Stock Exchange closing price on June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$2,397,161,732. Solely for this purpose, directors, executive officers and greater than 10% record shareholders are considered the affiliates of the registrant.

The number of shares of the registrant's common stock outstanding as of January 31, 2016 was 145,669,400.

Documents Incorporated By Reference: Certain sections of USG Corporation's definitive Proxy Statement for use in connection with its 2016 annual meeting of stockholders, to be filed subsequently, are incorporated by reference into Part III of this Form 10-K Report where indicated.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>7</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>15</u>
Item 2. <u>Properties</u>	<u>16</u>
Item 3. <u>Legal Proceedings</u>	<u>17</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>17</u>
<u>PART II</u>	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>18</u>
Item 6. <u>Selected Financial Data</u>	<u>20</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>46</u>
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>91</u>
Item 9A. <u>Controls and Procedures</u>	<u>91</u>
Item 9B. <u>Other Information</u>	<u>93</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>94</u>
Item 11. <u>Executive Compensation</u>	<u>95</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>96</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>96</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>96</u>
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>97</u>
<u>Signatures</u>	<u>98</u>

Table of Contents

PART I

Item 1. BUSINESS

In this annual report on Form 10-K, “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.

General

USG, through its subsidiaries, is 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. Our businesses are cyclical in nature and sensitive to changes in general economic conditions, including conditions in the North American housing and construction-based markets and the markets in Asia and Australasia. Our expansion via two 50/50 joint ventures we formed in 2014 with Boral Limited, referred to as USG Boral Building Products into the markets of Asia, Australasia, and the Middle East has significantly increased our exposure to the economic conditions in those areas.

The effects of market conditions on our operations are discussed in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

In December 2015, we completed the sale of our 50% interest in Knauf/USG Verwaltungs GmbH and Knauf/USG Systems GmbH & Co. KG, collectively the Knauf-USG joint venture, to our joint venture partner, Knauf Aquapanel GmbH, or Knauf, for €48 million in cash, or approximately \$52 million. Also during 2015, we completed the exit of our shipping operations, Gypsum Transportation Limited, or GTL, and sold the two ships it owned for \$42 million and repaid the outstanding loan balance under its secured loan facility agreement. See Notes 3 and 13, respectively, in Part II, Item 8 of this report for further information.

Segments

Our operations are organized into four reportable segments: Gypsum, Ceilings, Distribution and USG Boral Building Products, or UBBP. The net sales of Gypsum, Ceilings, and Distribution accounted for approximately 55%, 12% and 33%, respectively, of our 2015 consolidated net sales. UBBP is accounted for as equity method investments, and thus, net sales of UBBP are not included in consolidated net sales.

Gypsum

BUSINESS

Our Gypsum segment manufactures and markets gypsum and related products in the United States, Canada, Mexico and Latin America. It includes United States Gypsum Company, or U.S. Gypsum, in the United States, CGC Inc., or CGC, in Canada, USG Mexico, S.A. de C.V., or USG Mexico, and subsidiaries in Latin America. U.S. Gypsum is the largest manufacturer of gypsum wallboard in the United States and accounted for approximately 26% of total industry shipments of gypsum board (which includes gypsum wallboard, other gypsum-related paneling products and imports) in the United States in 2015. CGC is the largest manufacturer of gypsum wallboard in eastern Canada. USG Mexico is the largest manufacturer of gypsum wallboard in Mexico with more than 55% market share in 2015.

PRODUCTS

Gypsum’s products are used in a variety of building applications to construct walls, ceilings, roofs and floors of residential, commercial and institutional buildings, as well as in certain industrial applications. We also produce gypsum-based products for agricultural and industrial customers to use in a wide variety of applications, including soil conditioning, road repair, fireproofing and ceramics. The major product lines within the Gypsum segment are:

Table of Contents

WALLBOARD

Sheetrock® brand gypsum wallboard and Securock® brand glass mat sheathing portfolios Gypsum panels that provide aesthetic as well as sound-dampening, fire-retarding, abuse-resistance and moisture-control value

SURFACES

Sheetrock® brand joint compound portfolio, as well as corner bead, joint tape, and plaster Used for finishing wallboard joints

SUBSTRATES

Durock® brand cement board Provides water and fire-resistant assemblies for both interior and exterior applications

Fiberock® brand backerboard Includes abuse-resistant interior wall panels, tile backer boards, and flooring underlayments

Levelrock® brand systems of poured gypsum flooring Provides surface leveling and enhanced sound-dampening performance for residential and commercial flooring applications

Securock® brand roof board, ExoAir® 430 brand air-water barrier system and industrial gypsum Engineered gypsum panels, designed for high performance building envelope solutions, providing structural performance, fire-resistance, and moisture and air control

Construction plaster products, sold under the brand names Red Top®, Imperial®, Diamond® and Supremo® Used to provide a custom finish for residential and commercial interiors and provide aesthetic, sound-dampening, fire-retarding and abuse-resistance value

As the leader in lightweight innovation, we offer the industry's broadest portfolio of lightweight gypsum panels. In 2010, we introduced USG Sheetrock® Brand UltraLight Panels, the industry's first lightweight gypsum wallboard panel for use in interior wall and ceiling applications and have continued to extend our lightweight portfolio with the introductions of:

- USG Sheetrock® Brand UltraLight Panels Firecode 30® and Firecode X® for fire rated assemblies;
- USG Sheetrock® Brand UltraLight Panels Mold Tough®, the industry's first lightweight moisture- and mold-resistant wallboard; and,
- USG Sheetrock® Brand MH UltraLight Gypsum Panels for manufactured housing and Gypsum Base Imperial® for veneer plaster systems.

USG Sheetrock® Brand UltraLight Panels accounted for 65% of all of our wallboard shipments in the United States in 2015 and 63% in 2014.

MANUFACTURING

Gypsum manufactures products at 44 plants located throughout the United States, Canada, Mexico, and Latin America.

Gypsum rock is mined or quarried at 13 company-owned locations in North America. Our mines and quarries provided approximately 49% of the gypsum used by our plants in North America in 2015.

Some of our manufacturing plants purchase or acquire synthetic gypsum and natural gypsum rock from outside sources. In 2015, outside purchases of synthetic gypsum and natural gypsum rock accounted for approximately 42% and 9%, respectively, of the gypsum used in our plants.

Synthetic gypsum is a byproduct of flue gas desulfurization carried out by electric generation or industrial plants that burn coal as a fuel. The suppliers of this kind of gypsum are primarily power companies, which are required to operate scrubbing equipment for their coal-fired generating plants under federal environmental regulations. We have entered into a number of long-term supply agreements to acquire synthetic gypsum. Six of our 21 gypsum wallboard plants in operation use synthetic gypsum for all of their needs, while another six use it for a portion of their needs. The U.S. Environmental Protection Agency currently classifies synthetic gypsum as a non-hazardous waste. Certain power companies have recently switched to using natural gas instead of coal for their electric generation needs. In the event more power companies switch to using natural gas instead of coal, the availability of synthetic gypsum may decrease.

See Item 1A, Risk Factors.

We produce wallboard paper at four company-owned production facilities located in the United States. Vertical integration in paper helps to ensure a continuous supply of high-quality paper that is tailored to the specific needs of our production processes. We augment our paper needs through purchases from outside suppliers when necessary. We did not make any material purchases of paper from outside suppliers in 2015.

2

Table of Contents**MARKETING AND DISTRIBUTION**

Our gypsum products are distributed through L&W Supply locations, other specialty wallboard distributors, building materials dealers, home improvement centers and other retailers and contractors. Sales of gypsum products are seasonal in the sense that sales are generally greater from spring through the middle of autumn than during the remaining part of the year.

Based on our estimates using publicly available data, internal surveys and industry shipment data for gypsum board, as reported by the Gypsum Association, we estimate that during 2015 volume demand for gypsum board was generated by:

- residential and nonresidential repair and remodel activity of about 52%,
- new residential construction of about 36%,
- new nonresidential construction of about 7%, and
- other activities, such as exports and temporary construction of about 5%.

COMPETITION

Industry shipments of gypsum board in the United States (including gypsum wallboard, other gypsum-related paneling products and imports), as reported by the Gypsum Association, were an estimated 22.3 billion square feet in 2015, up approximately 2% from 21.8 billion square feet in 2014. U.S. Gypsum's share of the gypsum board market in the United States, which includes for comparability its shipments of USG Sheetrock® brand gypsum wallboard, Fiberock® brand gypsum fiber panels and Securock® brand glass mat sheathing, was approximately 26% in 2015, unchanged from 2014.

The principal methods of competition are quality of products, service, pricing, compatibility of systems and product design features. Our principal competitors are as follows:

	United States	Canada	Mexico
National Gypsum Company	x		
CertainTeed Corporation (a subsidiary of Compagnie de Saint-Gobain SA)	x	x	
Georgia-Pacific (a subsidiary of Koch Industries, Inc.)	x	x	
American Gypsum Company LLC (a unit of Eagle Materials Inc.)	x		
Continental Building Products, Inc.	x		
PABCO Gypsum (a division of PABCO Building Products)	x		
Cabot Gypsum Company		x	
Panel Rey, S.A. (a Grupo Promax Company)			x
Plaka (a unit of Comex)			x
Ceilings			

BUSINESS

Our Ceilings segment manufactures and markets interior systems products in the United States, Canada, Mexico, and Latin America. Ceilings includes USG Interiors, LLC, or USG Interiors in the United States, CGC, USG Mexico and subsidiaries in Latin America. Ceilings is a leading supplier of interior ceilings products used primarily in commercial applications. We estimate that we are the second-largest manufacturer of ceiling grid and acoustical ceiling tile worldwide.

As discussed below under USG Boral Building Products, or UBBP, on February 27, 2014, we invested with Boral Limited in UBBP and, in connection therewith, contributed to UBBP our operations in the Asia-Pacific region. As such, our Ceilings reportable segment included the results and activities of our subsidiaries in the Asia-Pacific region through February 27, 2014 within USG International.

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. It markets ceiling tile and ceiling grid in the United States, Canada, Mexico, Latin America, and through February 27, 2014, the Asia-Pacific region. Our integrated line of ceilings products provides qualities such as sound absorption, fire retardation and convenient access to the space above the

ceiling for electrical and mechanical systems, air distribution and maintenance. Ceilings' significant brand names include the Radar™, Eclipse™, Mars™, and Halcyon™ brands of ceiling tile and the Dura™, Fineline®, Centricitee™, Identitee® DXI™, Curvatura™ and Compass® brands of ceiling grid.

3

Table of Contents**MANUFACTURING**

Ceilings manufactures products at 8 plants located in North America. Principal raw materials used to produce Ceilings' products include mineral fiber, steel, perlite and starch. We produce some of these raw materials and obtain others from outside suppliers.

MARKETING AND DISTRIBUTION

Ceilings sells products primarily in markets related to the construction and renovation of nonresidential buildings. During 2015, approximately:

71% of Ceilings' net sales were from repair and remodel activity, primarily nonresidential,

27% of its net sales were from new nonresidential construction, and

2% of its net sales were from new residential construction.

Products are marketed and distributed through a network of distributors, installation contractors, L&W Supply locations and home improvement centers. Sales of Ceilings' products are seasonal in nature. Sales are generally weaker in the fourth quarter of the calendar year as compared to the preceding three quarters.

COMPETITION

Principal methods of competition are quality of products, service, pricing, compatibility of systems and product design features.

Our principal competitors in our Ceilings business are:

	United States	Canada	Mexico
Ceiling Tile			
Armstrong World Industries, Inc.,	x	x	x
Rockfon (a subsidiary of Rockwool International A/S)	x	x	
CertainTeed Corporation (a subsidiary of Compagnie de Saint-Gobain SA)	x	x	x
Knauf AMF GmbH & Co. KG	x	x	
Odenwald Faserplattenwerk GmbH (OWA)	x	x	
Ceiling Grid			
WAVE (a joint venture between Armstrong World Industries, Inc. and Worthington Industries)	x	x	
Chicago Metallic Corporation (a subsidiary of Rockwool International A/S)	x	x	
CertainTeed Corporation (a subsidiary of Compagnie de Saint-Gobain SA)	x	x	x

Distribution**BUSINESS**

Our Distribution segment consists of L&W Supply Corporation and its subsidiaries, or L&W Supply, a leading distributor of gypsum wallboard and other building materials in the United States. In 2015, L&W Supply distributed approximately 7% of all gypsum board in the United States, including approximately 30% of U.S. Gypsum's gypsum board production. During 2015, approximately:

35% of L&W Supply's net sales were from residential and nonresidential repair and remodel activity,

40% of its net sales were from new nonresidential construction, and

25% of its net sales were from new residential construction.

MARKETING AND DISTRIBUTION

L&W Supply 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. L&W Supply specializes in the distribution of gypsum wallboard (which accounted for 37% of its 2015 net sales) and joint compound manufactured by U.S. Gypsum as well as other manufacturers. Further, L&W Supply distributes products manufactured by USG Interiors, such as acoustical ceiling tile and grid, as well as products of other manufacturers, including drywall metal, insulation, roofing, fasteners and exterior insulation finishing systems. Sales of L&W Supply's products are seasonal in nature and are generally greater from spring through autumn when access to job sites is easier and construction activity is at its peak. L&W

Supply leases nearly all of its facilities from third parties. Typical leases have terms of five years and include renewal options.

As of December 31, 2015, L&W Supply served its customers from 142 distribution branches in the United States. It operated 145 branches as of December 31, 2014 and 143 branches as of December 31, 2013. In 2015, we closed 4 distribution branches and opened one new branch. Two new branches were opened in 2014 and none were closed.

4

Table of Contents

COMPETITION

L&W Supply competes with a number of specialty wallboard distributors, lumber dealers, hardware stores, home improvement centers and acoustical ceiling tile distributors. Its principal competitors include Gypsum Management Supply, a national supplier of building materials, Foundation Building Materials and KCG, Inc., both of which are multi-regional suppliers in the United States, and Allied Building Products Corporation in the northeastern, southern and western United States. Principal methods of competition are location, service, range of products and pricing.

USG Boral Building Products

BUSINESS

On February 27, 2014, we and certain of our subsidiaries formed 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, or Boral. These joint ventures are 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. UBBP is a leader in most of the markets it serves. As part of the consideration for our 50% ownership in UBBP, we contributed to UBBP our subsidiaries and joint venture investments in Asia-Pacific, India and Oman. Our investments in UBBP are accounted for as equity method investments. Our existing wholly owned subsidiaries and consolidated variable interest entities that were contributed into the joint venture were deconsolidated as of February 27, 2014. See Note 3 to the consolidated financial statements in Part II, Item 8 of this report for additional information related to our equity method investments.

PRODUCTS

UBBP manufactures and distributes products for wall, ceiling, floor lining and exterior systems that utilize gypsum wallboard, referred to as plasterboard in the region in which UBBP operates, mineral fiber ceiling tiles, steel grid and joint compound. UBBP's significant brand names include USG Boral Sheetrock® premium plasterboard, USG Boral NextGen®, Elephant®, Jayaboard®, Durock® and Donn® DX®, the world's most widely specified and installed ceiling suspension system. UBBP launched USG Boral Sheetrock® products, which leverages the technology in USG Sheetrock®, in Australia, South Korea, Indonesia, Vietnam, China and Thailand. UBBP is able to sell USG Boral Sheetrock® at a premium price and, in some markets, conversion rates have surpassed 10%, while in Australia the conversion rate is above 30%.

MANUFACTURING

UBBP has 25 plasterboard lines, 3 gypsum mines and 37 other non-board lines for metal products, metal ceiling grid, ceiling tile, joint compound, and cornice throughout twelve countries in Asia, Australasia and the Middle East.

Executive Officers of the Registrant

See Part III, Item 10, Directors, Executive Officers and Corporate Governance - Executive Officers of the Registrant (as of February 10, 2016).

Other Information

RESEARCH AND DEVELOPMENT

To contribute to our high standards and our leadership in the building materials industry, we perform extensive research and development at the USG Corporate Innovation Center in Libertyville, Illinois, using open innovation models and outside partnerships. Research team members collaborate with suppliers, universities and national research laboratories to provide product support and to develop new products and technologies for our operating units. With fire, acoustical, structural and environmental testing capabilities, the research center allows us to conduct our own on-site evaluation of products and systems. Chemical analysis and materials characterization support product development and safety/quality assessment programs. Development activities can be taken to an on-site pilot plant before being transferred to a full-size plant. Research and development activities have been focused on customer preferred system solutions. We expense research and development expenditures as incurred. These expenditures amounted to \$23 million, \$23 million and \$21 million in 2015, 2014 and 2013, respectively.

SUSTAINABILITY

The adoption of green building codes and standards such as the Leadership in Energy and Environmental Design, or LEED, rating system established by the U.S. Green Building Council to encourage the design and construction of

buildings that are environmentally friendly, combined with an increase in customer preference for products that can assist in obtaining LEED credit or are otherwise environmentally preferable, has increased demand for products, systems and services that contribute to building sustainable spaces. Many of our products meet the requirements for the awarding of LEED credits, and we continue to develop new products and systems to address market demand for products that enable construction of buildings that require

5

Table of Contents

fewer natural resources to build, operate and maintain. Our competitors also have developed and introduced to the market more environmentally responsible products.

We expect that there will be increased demand over time for products, systems and services that meet regulatory and customer sustainability standards and preferences and decreased demand for products that produce significant greenhouse gas emissions. We also believe that our ability to continue to provide these products and systems to our customers will be necessary to maintain our competitive position in the marketplace.

ENERGY

Our primary supplies of energy have been adequate, and we have not been required to curtail operations as a result of insufficient supplies. Supplies are likely to remain sufficient for our projected requirements. Currently, we are using swap contracts to hedge a significant portion of our anticipated purchases of natural gas to be used in our manufacturing operations over the next 12 months and beyond. We review our positions regularly and make adjustments as market conditions warrant.

SIGNIFICANT CUSTOMER

On a worldwide basis, The Home Depot, Inc. accounted for approximately 16%, 16% and 15% of our consolidated net sales in 2015, 2014 and 2013, respectively. Our Gypsum, Ceilings and Distribution segments all had net sales to The Home Depot, Inc. in each of those years.

INTELLECTUAL PROPERTY

We consider patents, copyrights, trademarks, trade secrets, proprietary technology and similar intellectual property as critical to our success. We hold numerous patents and have registered numerous trademarks of varying duration in multiple legal jurisdictions. Further, we have filed patent applications and applications for the registration of trademarks in the United States and internationally. Although we consider our patents, licenses and trade secrets to constitute valuable assets, we do not regard any of our businesses as being materially dependent upon individual patents, trade secrets, or licenses.

OTHER

Because we fill orders upon receipt, no segment has any significant order backlog.

None of our segments has any special working capital requirements.

No material part of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of any government.

As of December 31, 2015, we had approximately 8,900 employees worldwide.

See Note 14 to the consolidated financial statements in Part II, Item 8 of this report for financial information pertaining to revenue and assets by geographic region and our segments, and Item 1A, Risk Factors, for information regarding the risks associated with conducting business in international locations, as well as the possible effects that compliance with environmental laws and regulations may have on our businesses and operating results.

Available Information

We maintain a website at www.usg.com and make available at this website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission, or SEC. The information on our website is not, and will not be deemed to be, a part of this Annual Report on Form 10-K, or incorporated into any of our other filings with the SEC, except where we expressly incorporated such information. If you wish to receive a paper copy of any exhibit to our reports filed with or furnished to the SEC, the exhibit may be obtained, upon payment of reasonable expenses, by writing to: Corporate Secretary, USG Corporation, 550 West Adams Street, Chicago, Illinois 60661-3676.

Table of Contents

Item 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows are subject to various risks and uncertainties. We have described below significant factors that may adversely affect our industry and our business, financial condition, operating results and cash flows. You should carefully consider these factors, together with all of the other information in this annual report on Form 10-K and in other documents that we file with the SEC, before making any investment decision about our securities.

Our businesses are cyclical and seasonal in nature, and are particularly dependent on the housing and construction-based markets. Stalled momentum, or future downturns or delays in the recovery of these markets, may have a material adverse effect on our business, financial condition, operating results and cash flows.

Our businesses are cyclical and sensitive to changes in general economic conditions, including, in particular, conditions in the North American housing and construction-based markets. Housing starts and new nonresidential construction in the United States gained momentum in 2015 but still remain low by historical standards, with approximately 1.1 million housing starts in 2015 according to preliminary data reported by the U.S. Census Bureau compared to a historical annual rate of approximately 1.5 million prior to the 2008 economic downturn. Further, the residential and non-residential repair and remodel market has only experienced modest year over year increases after years of substantial decline. We cannot predict the conditions of the housing and construction-based markets, which may depend on broader economic issues including employment, household formation, home ownership rate, existing home price trends, availability of mortgage financing, interest rates, consumer confidence, job growth and discretionary business investment. We also cannot provide any assurances that the housing and construction-based markets will continue to recover. Adverse conditions in these markets, or the failure of these markets to return to historical levels, may have a material adverse effect on our business, financial condition, operating results and cash flows.

In addition, our businesses are seasonal, which has caused in the past, and will likely cause in the future, our quarterly results to vary significantly. Unfavorable weather conditions, such as snow or heavy rainfall, may also reduce construction activity and adversely affect demand for our products. In particular, unfavorable weather conditions during peak construction periods could have a disproportionate impact on our operating results for the full year. In the event of climate change, the effects of adverse weather patterns may increase in severity.

We may not be able to maintain current price levels, or achieve price increases, for our products, which may have a material adverse effect on our business, financial condition, operating results and cash flows.

Prices for our products are affected by overall supply and demand in the markets for our products. Market prices of building products historically have been volatile and cyclical. Currently, there is significant excess wallboard production capacity industry wide in the United States. Any increases in the production capacity of any of our competitors, or the entry of new competitors in our markets, could increase the overall supply in the markets for our products potentially leading to a reduction in prices. A prolonged period of weak demand or excess supply in any of our businesses may have a material adverse effect on our business, financial condition, operating results and cash flows. We implemented a not-to-exceed price increase for wallboard with the new price being set for January 1, 2015, which has been extended into 2016. It is uncertain that we will be able to achieve or maintain an increase in our selling prices, including with respect to gypsum wallboard. If we are unable to achieve or maintain price increases, our net sales, operating results and cash flows may be materially and adversely impacted.

Our substantial indebtedness may adversely affect our business, financial condition, operating results and cash flows. As of December 31, 2015, we had \$2.175 billion of total debt, consisting of senior notes and industrial revenue bonds. Our substantial indebtedness may have material adverse effects on our business, financial condition, operating results and cash flows, including to:

- make it more difficult, or increase the cost, to satisfy our debt service obligations or refinance our indebtedness on commercially reasonable terms;
- require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, research and development and other general operating requirements;
-

limit our ability to obtain additional financing to fund our working capital requirements, capital expenditures, research and development, acquisitions, investments, debt service obligations and other general corporate requirements;

7

Table of Contents

place us at a relative competitive disadvantage compared to our competitors that have proportionately less debt; limit our flexibility to plan for, or react to, changes in our businesses and the industries in which we operate; and increase our vulnerability to the current and potentially more severe adverse general economic and industry conditions.

Under the terms of our debt instruments, we are permitted to incur substantial additional indebtedness. If we incur additional indebtedness, the risks related to our indebtedness may intensify.

We require a significant amount of liquidity to service our indebtedness and fund operations, capital expenditures, research and development efforts, acquisitions and other corporate expenditures.

Our ability to fund operations, capital expenditures, research and development efforts, acquisitions and other corporate expenditures, including repayment of our indebtedness, depends on our ability to generate cash through future operating performance, which is subject to economic, financial, competitive, legislative, regulatory and other factors. Many of these factors are beyond our control. We cannot ensure that our businesses will generate sufficient cash flow from operations or that future borrowings or other financing will be available to us in an amount sufficient to pay our indebtedness or to fund our other needs.

We are required to post letters of credit or cash as collateral primarily in connection with our hedging transactions, insurance programs and bonding activities. The amounts of collateral we are required to post may vary based on our financial position and credit ratings. Use of letters of credit as collateral reduces our borrowing availability under our domestic revolving credit agreement and, therefore, like the use of cash as collateral, reduces our overall liquidity and our ability to fund other business activities.

If we are unable to generate sufficient cash flow to fund our needs, we may need to pursue one or more alternatives, such as to:

- curtail our operations;
- reduce or delay planned capital expenditures, research and development or acquisitions;
- seek additional financing or restructure or refinance all or a portion of our indebtedness at or before maturity;
- sell assets or businesses; or
- sell additional equity.

Any curtailment of operations, reduction or delay in planned capital expenditures, research and development or acquisitions, or any sales of assets or businesses, may materially and adversely affect our future revenue prospects. In addition, we cannot ensure that we will be able to raise additional equity capital, restructure or refinance any of our indebtedness or obtain additional financing on commercially reasonable terms or at all.

We face competition in each of our businesses. If we cannot effectively compete in the marketplace, our business, financial condition, operating results and cash flows may be materially and adversely affected.

We face competition in each of our businesses. Principal methods of competition include quality and range of products, service, location, pricing, compatibility of systems and product design features. Actions of our competitors, or the entry of new competitors in our markets, could lead to lower pricing by us in an effort to maintain market share and could also lead to lower sales volumes. To achieve and/or maintain leadership positions in key product categories, we must continue to develop brand recognition and loyalty, enhance product quality and performance, introduce new products and develop our manufacturing and distribution capabilities. In addition, several of our plants are dedicated to specific products. If any of those plants are unable to operate for a prolonged period it would reduce our ability to effectively compete, which may materially and adversely affect our business, financial condition, operating results and cash flows.

We also compete through our use and improvement of information technology. In order to remain competitive, we need to provide customers with timely, accurate, easy-to-access information about product availability, orders and delivery status using state-of-the-art systems. While we have provided manual processes for short-term failures and disaster recovery capability, a prolonged disruption of systems or other failure to meet customers' expectations regarding the capabilities and reliability of our systems may materially and adversely affect our operating results.

Table of Contents

We have remained a market leader in part through innovation. We intend to continue making investments in research and development to develop new and improved products and more efficient production methods in order to maintain our market leadership position. If we do not make these investments, or our investments are not successful, our revenues, operating results and market share could be materially and adversely affected. In addition, there can be no assurance that revenue from new products or enhancements will be sufficient to recover the research and development expenses associated with their development.

Certain of our customers have significant buying power, which may materially and adversely affect our revenues, financial condition, operating results and cash flows.

Certain of our important customers are large companies with significant buying power. In addition, potential further consolidation in our distribution channels could enhance the ability of certain of our customers to seek more favorable terms, including pricing, for the products that they purchase from us. Accordingly, our ability to maintain or raise prices in the future may be limited, including during periods of raw material and other cost increases. If we are forced to reduce prices or to maintain prices during periods of increased costs, or if we lose customers because of pricing or other methods of competition, our revenues, financial condition, operating results and cash flows may be materially and adversely affected.

Our customers and suppliers are exposed to risks associated with economic and financial conditions that could adversely affect us.

A number of our customers and suppliers have been and may continue to be adversely affected by weak financial conditions in their markets, disruptions to the capital and credit markets and decreased demand for their products and services. In the event that any of our large customers, or a significant number of smaller customers, are adversely affected by these risks, we may face reductions in demand for our products and services, failure of customers to pay invoices when due and other adverse effects that may have a material adverse effect on our business, financial condition, operating results and cash flows. Similarly, in the event that any of our large suppliers, or a significant number of smaller suppliers, are adversely affected by these risks, we may face disruptions in supply and other adverse effects that may have a material adverse effect on our business, financial condition, operating results and cash flows.

The loss of sales to one or more of our major customers may have a material adverse effect on our business, financial condition, operating results and cash flows.

We face strong competition for our major customers. As is customary in our industry, we do not enter into long-term contracts with our customers, who may choose to reduce, delay or cancel purchases of our products at any time. If one or more of our major customers reduces, delays or cancels substantial orders, our business, financial condition, operating results and cash flows may be materially and adversely affected, particularly for the period in which the reduction, delay or cancellation occurs and also possibly for subsequent periods.

If costs of key raw materials or energy increase, or the availability of key raw materials or energy decreases, our cost of products sold will increase and our operating results or cash flows may be materially and adversely affected.

The cost and availability of raw materials and energy are critical to our operations. For example, we use substantial quantities of gypsum, wastepaper, mineral fiber, steel, perlite and starch. The cost of certain of these items has been volatile, and availability has sometimes been limited. We obtain some of these materials from a limited number of suppliers, which increases the risk of unavailability. We may not be able to pass increased raw material prices on to our customers in the future if the market or existing agreements with our customers do not allow us to raise the prices of our finished products. If price adjustments for our finished products significantly trail the increase in raw material prices, or if we cannot effectively hedge against price increases, our operating results or cash flows may be materially and adversely affected.

Approximately half of the gypsum used in our wallboard plants is synthetic gypsum, which is a coal-combustion byproduct resulting primarily from flue gas desulphurization carried out by electric generation or industrial plants burning coal as a fuel. Six of our 21 gypsum wallboard plants in operation use synthetic gypsum for all of their needs, while another six use it for some of their needs. The suppliers of synthetic gypsum are primarily power companies, and certain power companies have recently switched to using natural gas instead of coal for their electric generation needs. In addition, existing or future changes in environmental regulations may make it more difficult or costly for

power companies to burn coal, including the U.S. EPA's final Clean Power Plan issued in 2015, which may result in a further shift away from coal-based sources of energy to natural gas and renewable energy sources. In the event more power companies switch to using natural gas instead of coal, the availability of synthetic gypsum may decrease. We could incur substantial costs in connection with any significant reduction in the availability of synthetic gypsum, including to convert our plants to use natural gypsum, which may materially and adversely

Table of Contents

affect our business, financial condition, operating results or cash flows. Further, although the U.S. EPA issued a final rule in December 2014 providing that there are no additional regulatory requirements on the use of synthetic gypsum, legal challenges to this final rule, or subsequent state legislation, could result in laws or regulations that adversely affect the classification, use, storage and disposal of synthetic gypsum, which may result in a material adverse effect on our business, financial condition, operating results and cash flows.

Energy costs also are affected by various market factors, including the availability of supplies of particular forms of energy, energy prices and local and national regulatory decisions. Prices for natural gas and electrical power, which are significant components of the costs associated with production of our gypsum and interior systems products, have been volatile in recent years. There may be substantial increases in the price, or a decline in the availability, of energy in the future, especially in light of instability or possible dislocations in some energy markets. We are not always able to pass on increases in energy costs to our customers through increases in product prices.

We use natural gas extensively in the production of gypsum and interior systems products in the United States, Canada and Mexico. In an attempt to reduce our price risk related to fluctuations in natural gas prices, we enter into hedging agreements using swaps. We benefit from the hedge agreements when spot prices exceed contractually specified prices. We are disadvantaged by the hedge agreements when spot prices are less than contractually specified prices.

In addition, the results of our hedging agreements could be negative in any period depending on price changes in the hedged exposures. Further, changes to the price of natural gas, including as a result of environmental or other legislation, could result in changes to the value of our hedging contracts, which could impact our results of operations for a particular period. Our hedging activities are not designed to mitigate long-term natural gas price fluctuations and, therefore, will not protect us from long-term natural gas price increases.

Any substantial or extended decline in prices of, or demand for, natural gas that has been hedged could cause our production costs to be greater than those of our competitors. A significant production cost differential could have a material adverse effect on our business, financial condition, operating results and cash flows.

Our exposure to the risks of operating internationally could adversely affect our business, financial condition, operating results and cash flows.

International business operations, including through UBBP, and our operations in Canada, Mexico, and Latin America, are becoming increasingly important to our future operations, growth and prospects. Further, it is a strategic priority of ours to continue to grow and diversify our earnings by expanding in select emerging markets. Our foreign operations and our international expansion strategy are subject to a number of risks, including:

- compliance with United States laws affecting operations outside of the United States, such as the Foreign Corrupt Practices Act or similar anti-bribery laws and regulations;
 - compliance with a variety of local regulations and laws;
 - changes in tax laws and the interpretation of those laws;
 - fluctuations in currency values;
 - sudden changes in foreign currency exchange controls;
 - discriminatory or conflicting fiscal policies;
 - difficulties enforcing intellectual property and contractual rights in certain jurisdictions;
 - greater risk of uncollectible accounts and longer collection cycles;
 - effective and immediate implementation of control environment processes across our diverse operations and employee base;
 - nationalization of properties by foreign governments; and
 - imposition of more or new tariffs, quotas, trade barriers, and similar restrictions on our sales outside the United States.
- Moreover, political and economic changes or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, epidemics, public corruption and other economic or political uncertainties could interrupt and negatively affect our business operations. All of these factors could result in increased costs or decreased revenues, and could materially and adversely affect our business, financial condition, operating results and cash flows.

Table of Contents

USG Boral Building Products reduces our control over certain assets and could give rise to disputes with Boral that could adversely affect our business, financial condition, operating results and cash flows.

UBBP involves risks not otherwise present when we operate our business through wholly-owned entities. For example:

Certain major decisions with respect to UBBP require the majority or unanimous approval of the joint ventures' boards or shareholders. Boral may have economic or other business interests or goals that are or become inconsistent with our interests or goals. Accordingly, we may not be able to obtain approval of certain matters that would be in our best interests. In addition, we may become engaged in a dispute with Boral that could require us to spend additional resources to resolve such dispute and have an adverse impact on the operations and profitability of UBBP.

A deadlock with respect to certain fundamental decisions may result in the triggering of a sale process of UBBP. In such a case, the terms of the sale may be less attractive than if we had held onto our investments.

UBBP is operated in accordance with the terms of a shareholders agreement, or the Shareholders Agreement, that limits our ability to transfer our interest in UBBP. As a result, we may be unable to sell our interest in UBBP when we would otherwise like.

UBBP may not pay dividends if such payments are, among other things, restricted pursuant to the terms of the credit facilities maintained by UBBP, inconsistent with the then-applicable strategic plan, or illegal. Accordingly, we may not receive dividend payments from UBBP in the amounts that we currently anticipate or at all, which may adversely impact our ability to receive any economic benefit from UBBP.

If we or Boral, or certain of our respective affiliates, are subject to a change of control, or if certain other events of default under the Shareholders Agreement occur with respect to us or Boral, we or Boral, as applicable, may be required to sell our or Boral's, as applicable, entire interest in UBBP at fair market value, as determined in accordance with the Shareholders Agreement. In the event we are forced to sell our interest in UBBP, it may be under terms that are not advantageous to us. In the event Boral is forced to sell its interest in UBBP, and we are unable to acquire Boral's interest due to lack of funding or otherwise, we would not have the right to select the third party to which Boral would sell its interest.

In certain circumstances, a capital call may be issued to the shareholders of UBBP in order to obtain additional funding for the joint ventures' operations. If we do not provide capital and Boral does, Boral may receive additional shares in UBBP, thereby diluting our interest and diminishing our rights under the Shareholders Agreement.

Boral may become insolvent, refuse to make additional capital contributions or fail to meet its obligations under the two share sale and subscription agreements or the Shareholders Agreement, which may result in certain liabilities to us.

In the event we exit UBBP, we may be restricted from competing in certain markets, many of which we anticipate to be high-growth markets, until the later of the third anniversary of our exit and ten years from the commencement of UBBP.

If any of these risks were to materialize, our business, financial condition, operating results and cash flows could be materially and adversely impacted.

Significant changes in discount rates used to measure our defined benefit plan obligations, actual investment returns on pension assets and other factors could negatively impact our business, financial condition, operating results and cash flows.

We maintain defined benefit pension plans as well as other postretirement benefit plans for eligible employees. Our profit margins are affected by costs related to maintaining these plans for active employees and retirees. The recognition of costs and liabilities associated with these plans for financial reporting purposes is affected by the level of interest rates and assumptions made by management and used by actuaries engaged by us to calculate the projected and accumulated benefit obligations and the annual expense recognized for these plans. The assumptions used in developing the required estimates primarily include discount rates, expected return on plan assets for the funded plans, compensation increase rates, retirement rates, mortality rates and, for postretirement benefits, retirement rates and levels of a company-provided subsidy. Economic and market factors and conditions could affect any of these assumptions and may affect our estimated and actual employee benefit plan costs and our business, financial condition, operating results and cash flows.

Our pension plans were underfunded by approximately \$263 million as of December 31, 2015 and \$346 million as of December 31, 2014. In recent years, the declining interest rates and changes to mortality assumptions have negatively impacted the funded status of our pension plans. The asset performance has been volatile since 2008, with plan assets outperforming in some years and underperforming in other years versus the assumed rate of return used to determine pension expense. If the

Table of Contents

discount rates and actual asset returns increase or decrease, the funded status of our plan as well as the future pension expense and funding obligations will decrease and increase, respectively.

Our business, financial condition, operating results and cash flows could be materially and adversely affected by infringement or misappropriation of our intellectual property and other proprietary rights.

Our success depends, in part, upon our intellectual property rights. We rely on a combination of contractual rights, copyright, trademark and trade secret laws to establish and protect our intellectual property. We also maintain patents for certain of our technologies. We customarily require our employees and independent contractors to execute confidentiality agreements or otherwise to agree to keep our proprietary information confidential when their relationship with us begins. In addition, we have entered into certain contractual intellectual property protections in connection with the licensure and use of our intellectual property by UBBP.

Despite our efforts, the steps we have taken to protect our intellectual property may be inadequate. Existing trade secret, patent, trademark and copyright laws offer only limited protection. Our patents could be invalidated or circumvented. In addition, others may develop substantially equivalent or superseding proprietary technology, or competitors may offer similar competing products that do not infringe on our intellectual property rights, thereby substantially reducing the value of our proprietary rights.

Moreover, the laws of some foreign countries in which our products are or may be manufactured or sold may not protect our products or intellectual property rights to the same extent as do the laws of the United States. This risk may be heightened in connection with our investments in UBBP, because it results in the use of our intellectual property in additional foreign jurisdictions, some of which lack robust or accessible intellectual property protection enforcement mechanisms.

From time to time, litigation may be necessary to defend and enforce our proprietary rights. As a result, we could incur substantial costs and divert management resources, which could harm our business, regardless of the final outcome. Despite our efforts to safeguard and maintain our intellectual property rights, both in the United States and abroad, we may be unsuccessful in doing so, which could materially and adversely affect our business, financial condition, operating results and cash flows.

A security breach of customer, employee, supplier or company information may have a material adverse effect on our business, financial condition, operating results and cash flows.

In the conduct of our business we collect, use, transmit and store data on information systems, which are vulnerable to an increasing threat of continually evolving cybersecurity risks. Any security breach or compromise of our information systems could significantly damage our reputation, cause the disclosure of confidential customer, employee, supplier or company information, including our intellectual property, and result in significant losses, litigation, fines and costs. While we have implemented processes to protect against unauthorized access to our information systems and data, there is no guarantee that these procedures are adequate or will be able to prevent breaches. The regulatory environment related to information security, data collection and privacy is evolving, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs.

We are subject to environmental and safety laws and regulations that may change. These laws and regulations could cause us to make modifications to how we manufacture and price our products. They could also require that we make significant capital investments or otherwise increase our costs.

We are subject to federal, state, local and foreign laws and regulations governing the protection of the environment and occupational health and safety, including laws regulating air emissions, wastewater discharges, the management and disposal of hazardous materials and wastes, and the health and safety of our employees. We are also required to obtain permits from governmental authorities for certain operations. If we were to fail to comply with these laws, regulations or permits, we could incur fines, penalties or other sanctions. In addition, in the past we have been, and in the future could be, held responsible for costs and damages arising from any contamination at our past or present facilities or at third-party waste disposal sites. We cannot completely eliminate the risk of contamination or injury resulting from hazardous materials. Environmental laws and regulations tend to become more stringent over time, and we could incur material expenses relating to compliance with future environmental laws. Further, new environmental and safety legislation may have a material and adverse impact on our operations and results. The Occupational Safety

and Health Administration has proposed a comprehensive occupational health standard for crystalline silica, which is found in most of our products, which would, among other things, lower the permissible occupational exposure limits. We could incur substantial costs in connection with complying with this rule as proposed.

The price and availability of certain of the raw materials that we use may vary in the future as a result of environmental laws and regulations affecting our suppliers. An increase in the price of our raw materials, a decline in their availability or

Table of Contents

future costs relating to our compliance with environmental laws and regulations may materially and adversely affect our operating margins or result in reduced demand for our products.

The U.S. Congress, several states and the international community are considering measures to reduce emission of greenhouse gases, or GHGs, including carbon dioxide and methane. Some states and provinces have already adopted GHG regulation or legislation. Following a finding by the U.S. EPA that certain GHGs represent an endangerment to human health, the U.S. EPA adopted two sets of rules regulating GHG emissions under the Clean Air Act, one that requires a reduction in emissions of GHGs from motor vehicles and another that regulates emissions of GHGs from certain large stationary sources, and in 2015 issued its final Clean Power Plan, under which the U.S. EPA will set state-specific goals for GHG emissions reductions. These rules, if they withstand legal challenge, could affect future expansions or modifications at all of our U.S. wallboard and ceiling tile plants and paper mills and would require that we incur significant costs to satisfy permitting requirements. In addition, enactment of new climate control legislation, regulatory initiatives or treaties impacting the locations where we conduct business could have a materially adverse effect on our operations and demand for our services or products. For example, any new legislation, such as a “carbon tax” on energy use or establishing a “cap and trade”, could materially and adversely increase the cost of energy used in our manufacturing processes. If energy becomes more expensive, we may not be able to pass these increased costs on to purchasers of our products. Further, stricter regulation of emissions might require us to install emissions controls or other equipment at some or all of our manufacturing facilities, requiring significant additional capital investments. Our financial results may be affected by various legal and governmental proceedings, including those involving antitrust, tax, environmental, or other matters.

We are subject to litigation and governmental proceedings in the normal course of business and could become subject to additional claims in the future, some of which could become material, including, but not limited to, a federal grand jury investigation of the gypsum drywall industry. The outcome of existing legal and governmental proceedings may differ from our expectations because the outcomes of litigation and governmental proceedings are often difficult to predict reliably. Various developments can lead to changes in current estimates of liabilities and related insurance receivables, where applicable. Those developments include judicial rulings or judgments, settlements, or regulatory developments or changes in applicable law. A future adverse ruling, settlement or unfavorable development could result in charges that could have a material adverse effect on our results of operations in any particular period. For a more detailed discussion of certain of the legal proceedings in which we are involved, see Item 3, Legal Proceedings, below.

Covenant restrictions under the agreements governing our indebtedness may limit our ability to pursue business activities or otherwise operate our business.

The agreements governing our indebtedness contain covenants that may limit our ability to finance future operations or capital needs or to engage in other business activities, including, among other things, our ability to:

- incur additional indebtedness;
- pay dividends;
- make guarantees;
- sell assets or make other fundamental changes;
- engage in mergers, acquisitions and dispositions;
- make investments;
- enter into transactions with affiliates;
- change our business purposes; and
- enter into sale and lease-back transactions.

In addition, we are subject to agreements that may require us to meet and maintain certain financial ratios and tests, which may require that we take action to reduce our debt or to act in a manner contrary to our current or future business plans. General business and economic conditions may affect our ability to comply with these covenants or meet those financial ratios and tests.

A breach of any of our credit agreement or indenture covenants or failure to maintain a required ratio or meet a required test may result in an event of default under those agreements. This may allow the counterparties to those agreements to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and

payable. If this occurs, we may not be able to refinance the accelerated indebtedness on favorable terms, or at all, or repay the accelerated indebtedness.

Table of Contents

If we experience an “ownership change” within the meaning of the Internal Revenue Code, utilization of our net operating loss, or NOL, carryforwards would be subject to an annual limitation.

The Internal Revenue Code imposes limitations on a corporation’s ability to utilize NOLs if it experiences an “ownership change”, which 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 that may be carried over to later years within the allowed NOL carryforward period. Notwithstanding, over the entire carryforward period, we may not be able to use all our NOLs due to the aforementioned annual limitation. If an ownership change had occurred as of December 31, 2015, our annual U.S. federal NOL utilization would have been limited to approximately \$92 million per year.

These NOL carryforwards are a substantial asset for us. We have a stockholder rights plan, or the Rights Agreement, which was initially intended to protect our stockholders from coercive takeover practices or takeover bids that are inconsistent with their best interests. However, on March 22, 2013, February 11, 2015 and November 16, 2015, we entered into amendments to the Rights Agreement in an effort to protect our NOLs. In addition, our Restated Certificate of Incorporation includes an amendment, the Protective Amendment, which restricts certain transfers of our common stock. The Protective Amendment is intended to protect the tax benefits of our NOLs and expires on May 9, 2016 unless our stockholders vote to extend its protections at our 2016 annual meeting of stockholders. See Note 17 to the consolidated financial statements in Part II, Item 8 of this report for a description of the amendments to the Rights Agreement and the Protective Amendment. Although the amendments to the Rights Agreement and Protective Amendment are intended to reduce the likelihood of an “ownership change” that could adversely affect us, we cannot provide assurance that the restrictions on transferability in the amendments to the Rights Agreement and Protective Amendment will prevent all transfers that could result in such an “ownership change.” There also can be no assurance that the transfer restrictions in the Protective Amendment will be extended by our stockholders at the 2016 annual meeting or be enforceable against all of our stockholders absent a court determination confirming such enforceability. The transfer restrictions may be subject to challenge on legal or equitable grounds.

A small number of our stockholders could significantly influence our business, affairs and stock price.

Based on filings made with the SEC, we believe that, as of January 31, 2016, two stockholders collectively controlled nearly 40% of our common stock. Accordingly, a small number of our stockholders could affect matters requiring approval by stockholders, including the election of directors and the approval of potential business combination transactions. One or more of these stockholders may have interests that differ from other stockholders and may vote on such matters in a way that is adverse to the interests of those other stockholders. In addition, if one or more of these stockholders sell a large number of our shares, our share price may decline, and could then continue to trade at lower prices, and could limit our ability to raise capital through the sale of additional equity securities.

We may pursue acquisitions, joint ventures and other transactions that are intended to complement or expand our businesses. We may not be able to complete proposed transactions, and even if completed, the transactions may involve a number of risks that may result in a material adverse effect on our business, financial condition, operating results and cash flows.

As business conditions warrant and our financial resources permit, we may pursue opportunities to acquire businesses or technologies and to form joint ventures that we believe could complement, enhance or expand our current businesses or product lines or that might otherwise offer us growth opportunities. We may have difficulty identifying appropriate opportunities, or if we do identify opportunities, we may not be successful in completing transactions for a number of reasons. Any transactions that we are able to identify and complete may involve one or more of a number of risks, including:

- the diversion of management’s attention from our existing businesses to integrate the operations and personnel of the acquired business or joint venture;
- possible adverse effects on our operating results during the integration process;
- failure of the acquired business or joint venture to achieve expected operational, profitability and investment return objectives;
- the incurrence of significant charges, such as asset devaluation or restructuring charges;

the incurrence of unanticipated liabilities and costs for which indemnification is unavailable or inadequate; and
the inability to achieve other intended objectives of the transaction.

14

Table of Contents

In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or their employees. We may not be able to maintain uniform standards, controls, procedures and policies, which may lead to operational inefficiencies. In addition, future acquisitions may result in dilutive issuances of equity securities or the incurrence of additional indebtedness.

We do not expect to pay cash dividends on our common stock for the foreseeable future.

We have not paid a dividend on our common stock since the first quarter of 2001 and have no plans to do so in the foreseeable future. Further, our credit agreement limits our ability to pay a dividend or repurchase our stock unless specified borrowing availability and fixed charge coverage ratio tests are met, and it prohibits payment of a dividend if a default exists under the agreement. Because we do not expect to pay dividends on our common stock in the foreseeable future, investors in our common stock will have to rely on the possibility of stock appreciation and sell their shares to realize a return on their investment.

Item 1B. UNRESOLVED STAFF COMMENTS

None

15

Table of Contents

Item 2.PROPERTIES

We operate plants, mines, quarries, and other facilities in North America and South America. U.S. Gypsum's Sheetrock® brand gypsum wallboard plants operated at approximately 57% of capacity during 2015. USG Interiors' ceiling tile plants operated at approximately 88% of capacity during 2015. The locations of our production properties in operation as of December 31, 2015, grouped by reportable segment, are as follows (plants are owned unless otherwise indicated):

Gypsum

	Gypsum wallboard and other gypsum products	Joint compound (surface preparation and joint treatment products)	Cement board	Gypsum rock (mines and quarries)	Paper for gypsum wallboard
Alabaster (Tawas City), Michigan				x	
Aliquippa, Pennsylvania*	x				
Auburn, Washington		x			
Baltimore, Maryland**	x	x	x		
Bridgeport, Alabama*	x	x			
Buenos Aires, Argentina***		x			
Calgary, Alberta, Canada***		x			
Chamblee, Georgia		x			
Dallas, Texas		x			
Detroit (River Rouge), Michigan			x		
East Chicago, Indiana*	x	x			
Fort Dodge, Iowa		x		x	
Galena Park, Texas*	x	x			x
Gypsum, Ohio		x			
Hagersville, Ontario, Canada**	x	x		x	
Jacksonville, Florida**	x	x			
Lima, Peru		x			
Little Narrows, Nova Scotia, Canada				x	
Monterrey, Nuevo Leon, Mexico	x	x	x	x	
Montreal, Quebec, Canada **	x	x			
New Orleans, Louisiana			x		
Norfolk, Virginia*	x				
North Kansas City, Missouri					x
Oakfield, New York					x
Otsego, Michigan					x
Phoenix (Glendale), Arizona		x			
Plaster City, California	x			x	
Port Reading, New Jersey		x			
Puebla, Puebla, Mexico	x	x			
Rainier, Oregon	x				
Saltillo, Coahuila, Mexico	x				
San Luis Potosi, San Luis Potosi, Mexico	x			x	
Shoals, Indiana**	x			x	
Sigurd, Utah	x	x		x	
Southard, Oklahoma				x	

Table of Contents

Sperry, Iowa**	x		x
Surrey, British Columbia, Canada***		x	
Sweetwater, Texas	x		x
Tecoman, Colima, Mexico	x		x
Torrance, California		x	
Washingtonville, Pennsylvania*	x		
* Plants supplied fully by synthetic gypsum			
** Plants supplied partially by synthetic gypsum			
*** Leased			

OTHER PRODUCTS

We operate a mica-processing plant at Spruce Pine, North Carolina. We manufacture metal lath, plaster and drywall accessories and light gauge steel framing products at Monterrey, Nuevo Leon, Mexico, and Puebla, Puebla, Mexico. We produce plaster products at Southard, Oklahoma; Puebla, Puebla, Mexico; Saltillo, Coahuila, Mexico; and San Luis Potosi, San Luis Potosi, Mexico. We manufacture paper-faced metal corner bead at Auburn, and Weirton, West Virginia (leased). We also manufacture cement panels at a manufacturing facility in Delavan, Wisconsin (leased).

Ceilings

	Ceiling Grid	Ceiling Tile
Cartersville, Georgia	x	
Cloquet, Minnesota		x
Greenville, Mississippi		x
Oakville, Ontario, Canada	x	
Stockton, California	x	
Walworth, Wisconsin		x
Westlake, Ohio	x	

A coil coater and slitter plant used in the production of ceiling grid is located in Westlake, Ohio. A slitter plant is located in Stockton, California (leased).

OTHER PRODUCTS

We manufacture mineral fiber products at Red Wing, Minnesota, and Walworth, Wisconsin, and metal specialty systems at Oakville, Ontario, Canada.

Distribution

L&W Supply leases nearly all of its facilities from third parties. Typical leases have terms of five years and include renewal options. As of December 31, 2015, L&W Supply served its customers from 142 distribution branches in the United States.

Item 3. LEGAL PROCEEDINGS

See Part II, Item 8, Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements, Note 19, Litigation, for information on legal proceedings, which information is incorporated herein by reference.

Item 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K promulgated by the SEC is included in Exhibit 95 to this report.

Table of Contents

PART II

Item MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the New York Stock Exchange, or NYSE, and the Chicago Stock Exchange under the symbol USG. The NYSE is the principal market for our common stock. As of January 31, 2016, there were 2,315 record holders of our common stock. We currently do not pay dividends on our common stock. Our credit facility restricts our ability to pay cash dividends on, or repurchase, our common stock. See Item 8, Financial Statements and Supplementary Data, Note 6, Debt, for more information regarding these restrictions.

We did not purchase any of our equity securities during the fourth quarter of 2015.

See Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for information regarding common stock authorized for issuance under equity compensation plans.

Pursuant to our Deferred Compensation Program for Non-Employee Directors, five of our non-employee directors deferred the \$120,000 annual grant, and one of our non-employee directors deferred the quarterly retainer, they were entitled to receive on December 31, 2015 under our Non-Employee Director Compensation Program, into a total of 25,812 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 each 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(a)(2) of the Securities Act and was exempt from registration under Section 5 of the Securities Act.

COMMON STOCK PRICES

The high and low sales prices of our common stock in 2015 and 2014 were as follows:

	2015		2014	
	High	Low	High	Low
First quarter	\$30.99	\$25.39	\$35.85	\$28.41
Second quarter	29.08	26.00	33.16	29.20
Third quarter	32.73	25.89	30.04	26.45
Fourth quarter	28.00	22.91	29.65	24.55

Table of Contents

PERFORMANCE GRAPH

The following graph and table compare the cumulative total stockholder return on our common stock with the Standard and Poor's 500 Index, or S&P 500, and the Dow Jones U.S. Construction and Materials Index, or DJUSCN, in each case assuming an initial investment of \$100 and full dividend reinvestment, for the five-year period ended December 31, 2015.

	Value of Investment as of December 31					
	2010	2011	2012	2013	2014	2015
USG	\$100	\$60	\$167	\$169	\$166	\$144
S&P 500	100	102	118	157	178	181
DJUSCN	100	94	132	170	168	181

All amounts are rounded to the nearest dollar.

Table of Contents

Item 6. SELECTED FINANCIAL DATA

(millions, except per-share and employee data)

Years Ended December 31,

	2015	2014	2013	2012	2011 (a)
Statement of Operations Data:					
Net sales	\$3,776	\$3,724	\$3,570	\$3,224	\$2,910
Cost of products sold	3,085	3,070	2,989	2,829	2,752
Gross profit	691	654	581	395	158
Selling and administrative expenses	317	339	320	304	289
Litigation settlement charge (b)	—	48	—	—	—
Long-lived asset impairment charges (c)	—	90	—	8	53
Contract termination charge and (recovery) loss on receivable (d)	(6	) 15	—	—	—
Gain on disposal of shipping operations, net	(1) —	—	—	—
Restructuring charges	—	—	3	10	22
Operating profit (loss)	381	162	258	73	(206
Income (loss) from equity method investments (e)	48	33	(1	) (3	) (2
Interest expense	(163	) (179	) (203	) (206	) (211
Interest income	2	1	3	4	6
Income and gain from sale of equity method investment to related party (e) (f)	13	2	2	3	3
Gain on deconsolidation of subsidiaries and consolidated joint ventures (g)	—	27	—	—	—
Loss on extinguishment of debt	(19	) —	—	(41) —
Income (loss) from continuing operations before income taxes	262	46	59	(170	) (410
Income tax (expense) benefit (h)	729	(7	) (11	) (12	) 14
Income (loss) from continuing operations	991	39	48	(182	) (396
Income (loss) from discontinued operations, net of tax	—	(1	) (2	) 2	6
Gain on sale of discontinued operations, net of tax (a)	—	—	—	55	—
Net income (loss)	991	38	46	(125	) (390
Less: Net income (loss) attributable to noncontrolling interest	—	1	(1	) 1	—
Net income (loss) attributable to USG	\$991	\$37	\$47	\$(126	) \$(390
Income (loss) from continuing operations per common share:					
Basic	6.81	0.27	0.45	(1.72	) (3.81
Diluted	6.73	0.26	0.44	(1.72	) (3.81
Balance Sheet Data (as of the end of the year):					
Working capital (i)	\$409	\$546	\$1,080	\$796	\$723
Current ratio (i)	1.41	1.97	2.90	2.50	2.41
Cash and cash equivalents	442	228	810	546	365
Property, plant and equipment, net	1,788	1,908	2,103	2,100	2,104
Total assets (i) (j)	4,736	3,936	4,051	3,691	3,697
Long-term debt (j) (k)	1,675	2,191	2,275	2,284	2,281
Total stockholders' equity	1,436	408	662	19	156
Other Information:					
Capital expenditures	\$94	\$132	\$124	\$70	\$54
Closing stock price per common share as of December 31	\$24.29	\$27.99	\$28.38	\$28.07	\$10.16

Average number of employees (1)	8,954	8,928	8,732	8,758	8,880
---------------------------------	-------	-------	-------	-------	-------

Results for 2011 have been adjusted from the originally reported amounts to reflect our European businesses, (a) which were sold on December 27, 2012, as discontinued operations. We recorded a gain of \$55 million on the sale of the businesses.

(b) Reflects a charge related to the settlement of the U.S. wallboard pricing class action lawsuit. See Note 19 to our consolidated financial statements in Part II, Item 8 of this report.

(c) Reflects long-lived asset impairment charges on certain manufacturing facilities, capitalized costs for the construction of future facilities and ocean vessels. See Note 12 and Note 13 to our consolidated financial statements in Part II, Item 8 of this report.

(d) Item relates to our GTL operations. See Note 13 to our consolidated financial statements in Part II, Item 8 of this report.

(e) Equity method income from our Knauf-USG joint venture has been reclassified for all periods to "income and gain from sale of equity method investment to related party."

(f) Reflects the gain recorded on the sale of our equity method investment in our Knauf-USG joint venture to our 50/50 joint venture partner in 2015 and our share of the net income from the equity method investment for all periods presented. See Note 3 to our consolidated financial statements in Part II, Item 8 of this report.

Table of Contents

Reflects the gain recorded on the deconsolidation and contribution to UBBP of our wholly-owned subsidiaries in (g) Singapore, Malaysia, New Zealand, and Australia and our consolidated joint ventures in Oman. See Note 3 to our consolidated financial statements in Part II, Item 8 of this report.

(h) Income tax (expense) benefit for 2015 includes the reversal of a tax valuation allowance of \$731 million. See Note 15 to our consolidated financial statements in Part II, Item 8 of this report.

Amounts for 2011-2014 have been retrospectively adjusted to reflect the change in presentation of current deferred (i) tax assets and liabilities to noncurrent. See Note 2 to our consolidated financial statements in Part II, Item 8 of this report.

Amounts for 2011-2014 have been retrospectively adjusted to reflect the change in presentation of unamortized (j) debt issuance costs from other assets to debt. See Note 2 to our consolidated financial statements in Part II, Item 8 of this report.

(k) Amounts reflected exclude currently maturing portion of long-term debt.

As of December 31, 2015, we had approximately 8,900 employees worldwide. For 2011, the average number of (l) employees includes employees from both our discontinued operations and our entities contributed to UBBP. For 2012 and 2013, the average number of employees includes employees from our entities contributed to UBBP.

Table of Contents

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

USG, through its subsidiaries, is a leading manufacturer and distributor of innovative, high-performance building systems. We produce a wide range of products under recognized brand names including Sheetrock®, Durock®, Fiberock®, and Securock® serving the commercial, residential, and repair and remodel construction markets, enabling our customers to build the outstanding spaces where people live, work and play. Our products also are distributed through building materials dealers, home improvement centers and other retailers, specialty wallboard distributors, and contractors.

KEY STRATEGIES

We continue to focus on the following strategic priorities:

- strengthen our core businesses,
- diversify our earnings by expanding in select markets and growing our adjacent product lines,
- differentiate USG from our competitors through innovation.

MARKET CONDITIONS AND OUTLOOK

Our businesses are cyclical in nature and sensitive to changes in general economic conditions, including conditions in the North American housing and construction-based markets and the markets in Asia and Australasia. Our expansion via two 50/50 joint ventures we formed with Boral Limited, referred to as USG Boral Building Products, or UBBP, into the markets of Asia, Australasia, and the Middle East has significantly increased our exposure to the economic conditions in those areas. However, the UBBP investment has helped diversify USG's overall exposure to changes in the North American economic conditions. The markets 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.

For the new residential construction market, housing starts are a very good indicator of demand for our gypsum products. Installation of our gypsum products into a single family home typically follows a housing start by 90 to 120 days. Based on preliminary data reported by the U.S. Census Bureau, housing starts in the United States increased 11% in 2015 to 1,111,400 compared with 1,003,300 in 2014. This followed an 9% increase in 2014 compared with 2013. For December 2015, the seasonally-adjusted annualized rate of housing starts was reported by the U.S. Census Bureau to be 1,149,000 units. While housing starts increased for the sixth consecutive year in 2015, they are still low by historical standards. Most industry analysts believe that the recovery in new residential construction will continue, although the recovery over the next few years may be uneven and modest, and that over the longer term housing starts will begin to reach historical averages. Industry analysts' forecasts for 2016 housing starts in the United States included in the most recent Blue Chip Economic Indicators are 1,170,000 to 1,350,000 units, based upon the average of the bottom ten and top ten forecasts included in the report, respectively. We currently estimate that 2016 housing starts in the United States will be 1,200,000.

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 12 to 18 months. According to the most recent construction market forecast from Dodge Data & Analytics (formerly known as McGraw Hill Construction), total floor space for which new nonresidential construction contracts were signed in the United States decreased 3% in 2015 compared with 2014. This followed a 13% increase in 2014 compared with 2013 and a 12% increase in 2013 compared with 2012. Dodge Data & Analytics forecasts that total floor space for which new nonresidential construction contracts in the United States are signed will increase approximately 9% in 2016 from the 2015 level. Dodge Data & Analytics' forecast includes several building types which do not generate significant demand for our products; therefore, we anticipate new nonresidential construction growth in our business sectors in 2016 compared to 2015 will increase 1%.

The repair and remodel market includes renovation of both residential and nonresidential buildings. As a result of the low levels of new home construction in recent years, this market 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 increased to 5.26 million units in 2015, reflecting a 6%

increase from the 2014 level of 4.94 million units, which was a 3% decrease from 2013. The generally rising or flat levels of existing home sales and home resale values in recent years have contributed to an increase in demand for our products from the residential repair and remodel market. We currently estimate that overall repair and remodel spending in 2015 increased approximately 2% over the 2014 level and that overall repair and remodel spending growth in 2016, compared to 2015, will increase 2 to 3%.

Table of Contents

The rate of recovery in the new residential construction market, new nonresidential construction market and the repair and remodel market still remains uncertain and will depend on broader economic issues including employment, household formation, home ownership rate, existing home price trends, availability of mortgage financing, interest rates, consumer confidence, job growth and discretionary business investment. An increase in interest rates, high levels of unemployment, restrictive lending practices, a decrease in consumer confidence or other adverse economic conditions could have a material adverse effect on our business, financial condition, operating results and cash flows. Our businesses are also affected by a variety of other factors beyond our control, including the inventory of unsold homes, 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, financial condition, results of operations and cash flows.

We expect modest improvement over the next twelve months in the construction industries of Canada and Mexico. Emerging markets, including those that are within the UBBP territory, provide opportunities for our operations to serve the increasing demand for products in these regions. Several market forecasters have predicted that China will lead construction materials demand growth over the next several years. Several other countries, including South Korea and Australia, are forecast to experience steady growth as well. Although the rate of growth in certain emerging markets has slowed, we expect the growth in these markets to exceed the improvements in North America with demand growth in the mid-single digits. We anticipate that the results from UBBP will enable us to counteract some of the potential cyclicalities in our North American business.

Our Gypsum segment has improved with the modest recovery in residential housing over the last three years, although it continues to be adversely affected by the low level of residential and other construction activity compared to historical averages. Our Ceilings segment, which primarily serves the commercial markets, and our Distribution segment, which serves the residential and commercial markets, have both showed some improvements. However, they continue to be adversely affected by the low levels of new commercial construction activity.

Industry shipments of gypsum board in the United States (including gypsum wallboard, other gypsum-related paneling products and imports), as reported by the Gypsum Association, were an estimated 22.3 billion square feet in 2015, up approximately 2% from 21.8 billion square feet in 2014.

U.S. Gypsum shipped 5.44 billion square feet of Sheetrock® brand gypsum wallboard in 2015, a 2% increase from 5.33 billion square feet in 2014. USG Sheetrock® Brand UltraLight Panels accounted for approximately 65% and 63% of that volume in 2015 and 2014, respectively. U.S. Gypsum's share of the gypsum board market in the United States, which includes, for comparability, its shipments of Sheetrock® brand gypsum wallboard, Fiberock® brand gypsum fiber panels and Securock® brand glass mat sheathing, was approximately 26% in 2015, unchanged from 2014. There is excess wallboard production capacity industry-wide in the United States. Industry capacity in the United States was approximately 32.8 billion square feet as of January 1, 2016. We estimate that the industry capacity utilization rate was approximately 70% and 74% during the fourth quarters of 2015 and 2014, respectively and approximately 68% and 66% during the full years 2015 and 2014, respectively. Based on current industry trends and forecasts, demand for gypsum wallboard is expected to increase in 2016, but the magnitude of any increase will depend on the levels of housing starts and repair and remodel activity. We project that the industry capacity utilization rate will experience a modest increase in 2016 compared to 2015.

Despite our realization of improvement in our average wallboard selling price, we could experience pressure on gypsum wallboard selling prices and our gross margins at such low levels of capacity utilization. U.S. Gypsum implemented a not-to-exceed price increase for wallboard with the new price being set for January 1, 2015 which has been extended into 2016. However, it is uncertain that we will be able to maintain the increase or obtain additional price increases in our selling prices, including with respect to gypsum wallboard. If we are unable to maintain price increases or obtain additional price increases, our net sales and operating profit may be materially and adversely impacted.

SEGMENTS

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 the 50/50 joint ventures, USG Boral Building Products, or UBBP, we determined UBBP to be our fourth reportable segment. See further discussion below under Ceilings and UBBP. As a result of these changes, our Mexico and Latin America businesses have been combined, and their Gypsum results have been included within our Gypsum segment, previously referred to as North American Gypsum, and their Ceiling results have been included within our Ceilings segment, previously referred to as Worldwide Ceilings. Our 2013 results have been recast to reflect these changes and present comparative year-over-year results.

Table of Contents

Our operations are organized into four segments: Gypsum, Ceilings, Distribution, and USG Boral Building Products. Gypsum: Our Gypsum segment manufactures and markets gypsum and related products in the United States, Canada, Mexico and Latin America. Gypsum's products are used in a variety of building applications to finish walls, ceilings and floors in residential, commercial and institutional construction and in certain industrial applications.

Ceilings: Our Ceilings segment manufactures and markets interior systems products in the United States, Canada, Mexico and Latin America. In addition, through February 27, 2014, it also included our businesses in the Asia-Pacific region (see paragraph below regarding UBBP), which were included in USG International. Ceilings is a leading supplier of interior ceilings products used primarily in commercial applications. Ceilings manufactures ceiling tile in the United States and ceiling grid in the United States, Canada and, through February 27, 2014, in the Asia-Pacific region. It markets ceiling tile and ceiling grid in the United States, Canada, Mexico, Latin America and, through February 27, 2014, in the Asia-Pacific region.

As discussed below under USG Boral Building Products, on February 27, 2014, we invested with Boral Limited, or Boral, in UBBP, and in connection therewith contributed to UBBP our operations in the Asia-Pacific region.

Distribution: Our Distribution segment consists of L&W Supply Corporation and its subsidiaries, a 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.

USG Boral Building Products (UBBP): On February 27, 2014, we and certain of our subsidiaries formed 50/50 joint ventures with Boral. 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"). UBBP manufactures and distributes 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 joint compound.

As consideration for our 50% ownership in UBBP, we (i) made a \$515 million cash payment 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, and (iii) granted to UBBP a license to use certain of our intellectual property rights in the Territory. 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 and then up to \$50 million based on performance during the first five years. See Note 3 to our consolidated financial statements in Part II, Item 8 of this report for further discussion of the accounting for the earnout payments.

UBBP is currently targeting the distribution of at least 50% of combined after tax profits to USG and Boral in proportion to the respective ownership interests, however, the dividend policy may be adjusted by the UBBP Board of Directors with unanimous resolution; provided, however, that UBBP will not pay dividends if such payments are, among other things, restricted pursuant to the terms of the credit facilities maintained by UBBP, inconsistent with the then-applicable strategic plan, or illegal. Through December 31, 2015, cash dividends of \$77 million have been declared by UBBP's Board of Directors and paid by UBBP. Our share of these dividends is \$38 million, which we intend to use to fund potential obligations under the earnout described above.

Since formation, UBBP has been funded from its net cash flows from operations and third-party financing, and it is our intent that as an ongoing operation, UBBP will continue to self-fund.

As a result of the contribution of our wholly-owned subsidiaries in Singapore, India, Malaysia, New Zealand and Australia and our consolidated joint ventures in Oman, the net sales and operating profit attributable to these entities are no longer included in those corresponding line items on our consolidated statement of operations subsequent to February 27, 2014. Instead, our share of the equity income from UBBP is shown within income from equity method investments.

Our investments in UBBP are accounted for as equity method investments and were initially measured at cost. Our existing wholly-owned subsidiaries and consolidated variable interest entities that were contributed into the joint ventures were deconsolidated, which resulted in a gain of \$27 million during the first quarter of 2014. Our investments in UBBP were consummated on February 27, 2014, and as a result, only ten months of our share of equity

income from UBBP is included in our accompanying consolidated statement of operations for the twelve months ended December 31, 2014.

Geographic Information: In 2015, 85% of our consolidated net sales were attributable to the United States. Canada accounted for 10% of our net sales, and other foreign countries accounted for the remaining 5%.

Table of Contents

In 2015, 34% of UBBP's net sales were attributable to Australia, 20% to South Korea, 14% to Thailand, 12% to China, and other foreign countries accounted for the remaining 20%.

CURRENCY IMPACT

Currency impacts on consolidated and segment results have been derived by translating current period results at the quarter-to-date and year-to-date average foreign currency rates for the period ending December 31, 2014, as applicable.

Consolidated Results of Operations

(millions, except per-share data)	2015	2014	2013	Favorable (Unfavorable)					
				2015 vs. 2014		2014 vs. 2013			
				\$	%	\$	%		
Net sales	\$3,776	\$3,724	\$3,570	\$52	1 %	\$154	4 %		
Cost of products sold	3,085	3,070	2,989	(15)	— %	(81)	(3)%		
Gross profit	691	654	581	37	6 %	73	13 %		
Selling and administrative expenses	317	339	320	22	6 %	(19)	(6)%		
Litigation settlement charge	—	48	—	48	100 %	(48)	*		
Long-lived asset impairment charges	—	90	—	90	100 %	(90)	*		
Contract termination charge and (recovery) loss on receivable	(6)	15	—	21	*	(15)	*		
Gain on disposal of shipping operations, net	(1)	—	—	1	*	—	*		
Restructuring charges	—	—	3	—	*	3	100 %		
Operating profit	381	162	258	219	*	(96)	(37)%		
Income (loss) from equity method investments	48	33	(1)	15	45 %	34	*		
Interest expense	(163)	(179)	(203)	16	9 %	24	12 %		
Interest income	2	1	3	1	100 %	(2)	(67)%		
Income and gain on sale from equity method investment to related party	13	2	2	11	*	—	*		
Gain on deconsolidation of subsidiaries and consolidated joint ventures	—	27	—	(27)	*	27	*		
Loss on extinguishment of debt	(19)	—	—	(19)	*	—	*		
Income from continuing operations before income taxes	262	46	59	216	*	(13)	(22)%		
Income tax benefit (expense)	729	(7)	(11)	736	*	4	36 %		
Income from continuing operations	991	39	48	952	*	(9)	(19)%		
Loss from discontinued operations, net of tax	—	(1)	(2)	1	100 %	1	50 %		
Net income	991	38	46	953	*	(8)	(17)%		
Less: Net income (loss) attributable to noncontrolling interest	—	1	(1)	1	(100)%	(2)	*		
Net income attributable to USG	\$991	\$37	\$47	\$954	*	\$(10)	(21)%		
Diluted earnings per share - continuing operations	\$6.73	\$0.26	\$0.44	\$6.47		\$(0.18)			

* not meaningful

NET SALES

Consolidated net sales in 2015 increased \$52 million, or 1%, compared with 2014. This was our sixth consecutive year-on-year increase. The increase in net sales was driven by our Distribution business, contributing an additional \$83 million to net sales over the prior year, largely driven by volume and price improvement on sales of gypsum wallboard. This increase was offset by a slight net decline in the Gypsum segment due to the elimination of shipping revenues of \$71 million due to the exit of our shipping business in the second quarter of 2015, which was largely offset by increases in volume and average selling prices for nearly all wallboard, surfaces and substrates products.

Ceilings revenues declined by \$14 million. Ceilings revenues in 2014 included nearly two months of revenue for USG International, or \$7 million, prior to its contribution into the UBBP joint venture on February 27, 2014, with further declines in sales driven by the strengthening of the U.S. Dollar, offset by higher selling prices for ceiling tile. On a consolidated basis, we estimate that the strengthening of the U.S. Dollar negatively impacted our net sales by approximately \$65 million compared with 2014.

Consolidated net sales in 2014 increased \$154 million, or 4%, compared with 2013. Net sales increased 6% for our Gypsum segment and 8% for our Distribution segment, offset by a decrease of 10% for our Ceilings segment. The higher levels of net sales for Gypsum and Distribution primarily reflected increased selling prices and higher volume for USG Sheetrock® brand gypsum wallboard. The decrease in net sales for Ceilings primarily reflected the absence of net sales from our subsidiaries in Asia-Pacific, India, and Oman that were contributed to UBBP on February 27, 2014. Net sales for our Ceiling segment also decreased 2% due to lower volumes on ceiling tile and grid.

Table of Contents

GROSS PROFIT

Gross profit was \$691 million in 2015 compared to \$654 million in 2014. The increase was primarily due to increases in volume and average selling prices for nearly all wallboard, surfaces and substrates products, and increases in volume and price for gypsum wallboard sold through our Distribution business. As a percentage of net sales, gross profit was 18.3% in 2015 and 17.6% in 2014. The increase for 2015 compared with 2014 was primarily driven by higher average selling prices and higher volumes.

As a percentage of net sales, gross profit was 17.6% in 2014 and 16.3% in 2013. The increase for 2014 compared with 2013 was primarily driven by higher selling prices for USG Sheetrock®.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses totaled \$317 million in 2015, \$339 million in 2014 and \$320 million in 2013. As a percentage of net sales, selling and administrative expenses decreased to 8.4% in 2015 compared to 9.1% in 2014 and 9.0% in 2013. The reduction in selling and administrative expenses from 2015 to 2014 was driven by management's focus on reducing discretionary spending, partially offset by higher salary, pension and incentive compensation, the absence of a \$13 million pension settlement charge recorded in 2014 for our previously frozen U.K. pension plan and lower stock compensation expense driven by lower grant date fair values. Selling and administrative expenses as a percentage of net sales remained consistent at 9.1% in 2014 with 9.0% in 2013.

LITIGATION SETTLEMENT CHARGE

In the third quarter of 2014, we recorded a litigation settlement charge of \$48 million related to the settlement of the U.S. wallboard pricing class action lawsuit. See Note 19 to the consolidated financial statements in Part II, Item 8 of this report for additional detail.

LONG-LIVED ASSET IMPAIRMENT CHARGES

Long-lived asset impairment charges were \$90 million in 2014. There were no impairment charges on long-lived assets in 2015 or 2013. The charges in 2014 reflect the impairment of \$30 million on certain manufacturing facilities and capitalized costs for the construction of future facilities, which we do not anticipate will be built within our planning horizon, and of \$60 million on two vessels owned by Gypsum Transportation Limited (GTL). See Notes 12 and 13 to our consolidated financial statements in Part II, Item 8 of this report for additional information related to long-lived asset impairment charges.

CONTRACT TERMINATION CHARGE AND (RECOVERY) LOSS ON RECEIVABLE

In the fourth quarter of 2014, we recorded a charge of \$15 million for contract costs related to a lease of an ocean vessel that were to be incurred over the remaining term without economic benefit to us and for a loss on an uncollectible receivable owed to GTL by its trading partner.

In 2015, we recovered \$6 million of the previously deemed uncollectible receivable through a settlement agreement. See Note 13 to the consolidated financial statements in Part II, Item 8 of this report for additional information.

GAIN ON DISPOSAL OF SHIPPING OPERATIONS, NET

During the second quarter of 2015, we recorded a net gain on the disposal of our shipping operations of \$1 million. This reflects a gain on sale of our two self-unloading vessels of \$7 million and charges to wind down our shipping operations of \$6 million.

RESTRUCTURING CHARGES

In prior years, we implemented restructuring activities and as a result, recorded restructuring charges of \$3 million in 2013. There were no restructuring charges recorded in 2015 or 2014. These charges in 2013 primarily related to salaried workforce reductions.

INCOME (LOSS) FROM EQUITY METHOD INVESTMENTS

Income (loss) from equity method investments was \$48 million in 2015, \$33 million in 2014, and \$(1) million in 2013. The increase from 2014 to 2015 primarily reflects an increase in our share of the net income of UBBP driven by both growth in the business year-over-year and twelve months of equity method income in 2015 and only ten months in 2014. Our share of equity earnings in 2015 was negatively impacted by approximately \$8 million due to the strengthening of the U.S. dollar.

The increase from 2013 to 2014 primarily reflects ten months of equity income of \$33 million attributable to our share of the net income of UBBP, which commenced on February 27, 2014.

INTEREST EXPENSE

Interest expense was \$163 million in 2015, \$179 million in 2014 and \$203 million in 2013. Lower interest expense in 2015 as compared to 2014 primarily reflects lower debt levels and lower interest rates on our outstanding debt. The decline was driven

Table of Contents

by the April 2014 conversion of \$75 million of our 10% convertible senior notes into common stock, the August 2014 repayment of \$59 million of our 9.75% Senior Notes, the February 2015 repurchase of our 8.375% Senior Notes due 2018, the repayment of our ship mortgage facility and lower amortization of deferred financing fees and debt discounts, offset by the issuance of our 5.5% Senior Notes due 2025.

Lower interest expense in 2014 as compared to 2013 primarily reflects the conversion of \$325 million and \$75 million of our 10% convertible senior notes into common stock in December 2013 and April 2014, respectively, and the repayment of \$59 million of our 2014 Notes in August 2014 offset by additional interest expense related to our \$350 million of 5.875% senior notes that were issued in October 2013.

INCOME AND GAIN ON SALE FROM EQUITY METHOD INVESTMENT TO RELATED PARTY

On December 22, 2015, we completed the disposition of our 50% share of the Knauf-USG joint venture to Knauf for a total price of €48 million in cash, or approximately \$52 million. We recorded a gain of \$11 million, or \$6 million net of tax, on the disposition of the equity method investment. Our share of the income from the equity method investment from January 1, 2015 through December 22, 2015 amounted to \$2 million, which was flat with 2014 and 2013. See Note 3 to our consolidated financial statements in Part II, Item 8 of this report for additional information.

GAIN ON DECONSOLIDATION OF SUBSIDIARIES

In the first quarter of 2014, we recognized a gain of \$27 million on the deconsolidation of subsidiaries as a result of our contribution of our wholly-owned subsidiaries in Singapore, India, Malaysia, New Zealand and Australia and our consolidated joint ventures in Oman into UBBP.

LOSS ON EXTINGUISHMENT OF DEBT

In the first quarter of 2015, we recorded a \$19 million loss on the extinguishment of debt, including premiums and a write-off of unamortized debt issuance costs, in connection with the tender offer and repurchase of our 8.375% Senior Notes due 2018.

INCOME TAX EXPENSE

Income tax benefit was \$729 million in 2015 compared with income tax expense of \$7 million in 2014. The income tax benefit in 2015 primarily resulted from the reversal of a substantial portion of our deferred tax asset valuation allowance of \$731 million. In addition, tax benefits of \$5 million were recorded for recently enacted Federal law changes related to alternative minimum tax credit monetization, or AMT credits. These benefits recorded were offset slightly by tax expense for certain foreign, state and local jurisdictions of \$7 million. Due to the effects of reversing our deferred tax asset valuation allowance, our effective tax rate for 2015 is abnormally low. See further discussion of the release of our valuation allowance below under "Realization of Deferred Tax Asset". In 2016, our income tax provision on our domestic earnings in our consolidated statement of operations will not be offset by a corresponding change in the valuation allowance. Thus, our income tax provision will result in a charge to earnings.

Income tax expense was \$7 million in 2014 compared with \$11 million in 2013. Our effective tax rate in 2014 was 15.3%. Income tax expense in 2014 primarily reflects income taxes for certain foreign, state and local jurisdictions of \$9 million, which includes \$2 million of withholding taxes between foreign jurisdictions, offset by an income tax benefit of \$2 million from accumulated other comprehensive income (loss) related to the settlement of a pension plan for which we recorded a \$13 million charge in 2014.

The effective tax rate based on our income (loss) from continuing operations was 18.6% for 2013. Income tax expense in 2013 primarily reflects income taxes for certain foreign, state and local jurisdictions of \$14 million, including \$6 million of withholding taxes on dividends between foreign jurisdictions, partially offset by an income tax benefit of \$3 million recorded in the first quarter of 2013, which primarily related to the release of the valuation allowance against a portion of our alternative minimum tax, or AMT, credits. This change in the realizability of those credits was due to the enactment of the American Taxpayer Relief Act of 2012.

Table of Contents

Segment Results of Operations

GYPSUM

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

(millions)	2015 (a)	2014(b)	2013(c)	Favorable (Unfavorable)		2014 vs. 2013			
				2015 vs. 2014		\$	%		
Net Sales:									
United States	\$2,012	\$1,920	\$1,765	\$92	5	%	\$155	9	%
Canada	321	344	348	(23)	(7)	)%	(4)	(1))%
Mexico / Latin America	187	195	197	(8)	(4)	)%	(2)	(1))%
Gypsum Transportation Limited	10	81	81	(71)	(88))%	—	*	
Canadian Mining	6	5	8	1	20	%	(3)	(38))%
Eliminations	(139)	(142)	(137)	3	2	%	(5)	(4))%
Total	\$2,397	\$2,403	\$2,262	\$(6)	—	%	\$141	6	%
Operating Profit (Loss):									
United States	\$316	\$192	\$214	\$124	65	%	\$(22)	(10))%
Canada	7	13	17	(6)	(46)	)%	(4)	(24))%
Mexico / Latin America	24	19	21	5	26	%	(2)	(10))%
Gypsum Transportation Limited	7	(52)	20	59	*		(72)	*	
Canadian Mining	(6)	(3)	(10)	(3)	(100)	)%	7	*	
Eliminations	—	—	(1)	—	*		1	100	%
Total	\$348	\$169	\$261	\$179	*		\$(92)	(35))%

*Not meaningful

Operating profit in 2015 includes \$1 million for the net gain on sale of the ships and costs to wind-up the Gypsum (a) Transportation Limited business, a \$6 million recovery of a portion of the receivable deemed uncollectible in 2014 and a pre-tax gain on the sale of assets in Mexico of \$10 million (\$7 million net of tax).

Operating profit in 2014 included a litigation charge of \$48 million, which relates to the United States, long-lived asset impairment charges of \$90 million, of which \$30 million relates to United States and \$60 million relates to (b) Gypsum Transportation Limited, and contract termination and loss on receivable of \$15 million, which relates to Gypsum Transportation Limited.

(c) Operating profit in 2013 included restructuring charges of \$3 million, which all related to United States, and pension settlement charges of \$9 million, which primarily related to United States.

UNITED STATES

2015 COMPARED WITH 2014

Net sales in 2015 increased \$92 million, or 5%, compared with 2014. The net sales increase was due to the following:

(millions)	Sales		Volume		Price			
	\$	%	\$	%	\$	%		
Change to 2015 from 2014								
Sheetrock® brand gypsum wallboard	33	4	% 19	2	% 14	2	%	
Sheetrock® brand joint compound	19	6	% 14	5	% 5	1	%	
Durock® brand cement board	10	9	% 4	4	% 6	5	%	
Roof board	8	18	% 8	18	% —	—		
Levelrock® brand poured flooring	8	18	% 8	18	% —	—		
Other	14	10	%					
Total increase in net sales	\$92	5	%					

Net sales of USG Sheetrock® brand gypsum wallboard increased \$33 million, or 4%, reflecting 2% increases in both volume and average gypsum wallboard selling prices. The increase in volume was driven by higher demand in nearly

all channels, with the increase in average selling prices driven by the price increase put in place on January 1, 2015.

28

Table of Contents

Sales of Sheetrock® brand joint compound increased \$19 million driven largely by increased volume to specialty dealers and big box retailers and a 1% increase in average selling prices due to the price increase that was effective in the first quarter of 2015. Durock® brand cement board sales increased \$10 million which reflected both higher volumes through big box retailers, flooring customers and specialty dealers and higher average selling price due to the price increase that was effective in the first quarter of 2015. Sales of roof board and Levelrock® increased by \$16 million primarily driven by higher volume for Gyp-Fiber roof boards, Glass-Mat roof boards and Levelrock® poured flooring. The increase in Other reflected higher sales of other products of \$14 million, which was due to product mix and other surfaces and substrates products, none of which were individually significant.

Operating profit was \$316 million in 2015 and \$192 million in 2014, or a \$124 million increase. Of this increase, \$66 million reflects the absence from 2015 of certain items recorded in 2014 and further discussed below. The remaining operating profit increase of \$58 million reflects the following:

(millions)	Operating Profit	Volume	Price	Cost
	\$	\$	\$	\$
Change to 2015 from 2014				
Sheetrock® brand gypsum wallboard	\$37	\$8	\$14	\$15
Sheetrock® brand joint compound	11	3	5	3
Durock® brand cement board	2	1	5	(4)
Roof board	4	2	—	2
Other gypsum products	4			
Other	66			
Total increase in operating profit	\$124			

Of the increase of \$124 million, \$66 million was driven by the absence in 2015 of a litigation charge of \$48 million due to the settlement of the U.S. wallboard pricing class action lawsuit, long-lived asset impairment charges of \$30 million related to certain manufacturing facilities and capitalized costs for the construction of future facilities, which we do not anticipate will be built within our planning horizon, and a gain of \$12 million on the sale of surplus property.

The remaining \$58 million improvement in operating profit in 2015 was driven by gross profit improvement of the products reflected above, with:

- Higher volume of 2%, driven by big box retailers and specialty dealers, higher selling prices for USG Sheetrock® brand gypsum wallboard, and lower per unit costs;

- Higher volume of 5%, driven by specialty dealers and big box retailers, and higher selling prices for USG Sheetrock® brand joint compound and lower per unit costs of 1%;

- 4% higher volumes for Durock® brand cement board through big box retailers, flooring customers and specialty dealers and higher selling prices, including freight, largely offset by an increase of per unit costs of 5%;

- Gyp-Fiber and Glass-Mat roof board higher volumes and per unit cost improvement.

Manufacturing costs per unit improved for USG Sheetrock® brand gypsum wallboard driving \$15 million of increased operating profit. The improved operating profit was largely driven by a reduction in energy costs led the decline in per dekatherm ("Dth") cost of natural gas. The reduction in energy costs was also driven by lower usage as a result of operational initiatives. Higher conversion and fixed costs, largely attributable to increased employee costs offset some of these energy savings. Durock® cost per unit was up from 2014 driven by increases in prices of raw materials and increased transportation costs. Per unit manufacturing costs for joint compound declined driven by a decrease in costs of raw materials, primarily in packaging where the cost of resin declined due to the continued decrease in the price of oil, and an increase in volumes, offset by increased employee costs.

As a percentage of sales, selling and administrative expenses declined by 20 basis points, with management's continued focus to reduce spending which offset higher employee, salary and incentive compensation expense compared to 2014.

New housing construction increased in 2015, resulting in increased demand for gypsum wallboard, as discussed above. U.S. Gypsum shipped 5.44 billion square feet of USG Sheetrock® brand gypsum wallboard in 2015, a 2%

increase from 5.33 billion square feet in 2014. During 2015, USG Sheetrock® Brand UltraLight Panels accounted for 65% of all of our wallboard shipments in the United States. We estimate that industry capacity utilization rates averaged approximately 68% during 2015, while U.S. Gypsum's capacity utilization rate averaged 57%.

Table of Contents

2014 COMPARED WITH 2013

Net sales in 2014 increased \$155 million, or 9%, compared with 2013. Net sales of USG Sheetrock® brand gypsum wallboard increased \$91 million, or 11%, reflecting an 8% increase in average gypsum wallboard selling prices, which increased sales by \$62 million, and a 4% increase in gypsum wallboard shipments, which contributed \$29 million to net sales. Net sales of Sheetrock® brand joint compound were up \$16 million due to a 4% increase in volume and a 1% increase in selling prices. Net sales of Durock® brand cement board increased \$6 million due to a 7% increase in volume offset by a 1% decrease in price. Net sales of other products, including freight, increased an aggregate of \$45 million compared with 2013. Offsetting these increases are lower sales of Fiberock® brand gypsum fiber panels of \$2 million primarily due to a 4% decrease in volume and a 2% decrease in price and an increase in sales discounts of \$1 million due primarily to higher sales.

Operating profit was \$192 million in 2014 and \$214 million in 2013. The decrease includes a litigation settlement charge of \$48 million due to the settlement of the U.S. wallboard pricing class action lawsuit and impairment charges of \$30 million related to certain manufacturing facilities and capitalized costs for the construction of future facilities, which we do not anticipate will be built within our planning horizon. The decrease also includes a \$9 million charge from the mark-to-market of our natural gas hedges due to the decrease in natural gas price and additional cost and overhead expenses, including \$16 million of employee related costs, \$3 million of professional fees, \$2 million in marketing costs, \$3 million of depreciation and accretion, \$4 million of freight charges, \$3 million of other plant costs and \$4 million of other miscellaneous costs. Offsetting these costs is an increase in gross profit of \$78 million due to the following: (a) a gross profit increase of \$68 million for USG Sheetrock® brand gypsum wallboard primarily due to higher volume and selling prices of 4% and 8%, respectively, partially offset by higher per unit costs of 1%, (b) a gross profit increase of \$3 million for Sheetrock® brand joint compound primarily due to higher volume of 4% and selling prices of 1%, partially offset by higher per unit costs of 1%, (c) a gross profit increase of \$1 million for Durock® brand cement board primarily due to increased volume of 7% offset by decreased price of 1% and unchanged per unit costs, and (d) a gross profit increase of \$7 million for our other gypsum products, offset by a decrease of \$1 million in Fiberock® brand gypsum fiber panels due to the decreased volume of 4% and price of 2% offset by lower per unit costs of 1%. Also contributing to the offset of the increased costs were lower information technology costs of \$1 million, the absence of a pension settlement charge of \$9 million that was recorded in 2013 and a gain of \$12 million on sale of surplus property.

New housing construction increased in 2014, resulting in increased demand for gypsum wallboard, as discussed above. U.S. Gypsum shipped 5.33 billion square feet of USG Sheetrock® brand gypsum wallboard in 2014, a 4% increase from 5.14 billion square feet in 2013. During 2014, USG Sheetrock® Brand UltraLight Panels accounted for 63% of all of our wallboard shipments in the United States. We estimate that industry capacity utilization rates averaged approximately 66% during 2014, while U.S. Gypsum's capacity utilization rate averaged 56%.

Manufacturing costs per unit increased 1% for USG Sheetrock® brand gypsum wallboard in 2014 compared with 2013, due primarily to an increase of 6% for conversion costs primarily due to labor costs partially offset by lower man hour usage and 5% for energy due primarily to increased cost of energy in the first quarter due to colder than normal weather offset by per unit cost decreases of 6% for fixed costs reflecting favorable impact from higher volumes.

CANADA

2015 COMPARED WITH 2014

Net sales in 2015 were \$321 million compared to net sales in 2014 of \$344 million. This reduction in net sales was driven by a \$41 million negative impact due to the strengthening of the U.S. Dollar. The foreign currency impact was partially offset by an increase in net sales of wallboard of \$26 million driven by increases in volume and selling prices of 6%.

Operating profit was \$7 million in 2015 compared with \$13 million in 2014. This \$6 million decline is driven by a \$13 million unfavorable impact of foreign currency, \$3 million lower joint treatment profit driven by a reduction in volume and 13% higher cost offset by an improvement in wallboard volume and selling prices as noted above. Also contributing to the decline in operating profit is the increase in miscellaneous costs driven by higher employee costs. Selling and administrative expenses remained flat as a percentage of sales.

Table of Contents

2014 COMPARED WITH 2013

Net sales in 2014 were \$344 million compared to net sales in 2013 of \$348 million. This decrease of \$4 million includes an unfavorable impact of currency translation of \$23 million due to the weakening of the Canadian Dollar to the U.S. Dollar and an unfavorable change in cash discounts recorded of \$1 million. Offsetting this decrease are \$17 million of higher net sales for Sheetrock® brand gypsum wallboard due to a 6% increase in volume offset by a 4% decrease in price, higher net sales of other non-wallboard products of \$1 million and increased outbound freight of \$2 million.

Operating profit was \$13 million in 2014 compared with \$17 million in 2013. This \$4 million decrease reflects \$2 million of lower gross profit for joint treatment products, \$1 million of lower gross profit for other non-wallboard products and an unfavorable impact due to currency translation of \$1 million.

MEXICO / LATIN AMERICA

2015 COMPARED WITH 2014

Net sales in Mexico and Latin America were \$187 million in 2015 compared with \$195 million in 2014. The decrease of \$8 million in sales was driven by the strengthening of the U.S. Dollar, which negatively impacted net sales by approximately \$16 million, which was offset by an increase in both wallboard volume and price.

Operating profit was \$24 million in 2015 compared with \$19 million in 2014. The increase of \$5 million is driven by the realization of a pre-tax gain of \$10 million (\$7 million net of tax) on the disposition of surplus property in Mexico that was completed in December 2015, improvement in energy pricing and operational efficiencies derived from Lean Six Sigma projects. Offsetting this increase was the unfavorable impact of foreign currency of approximately \$6 million.

2014 COMPARED WITH 2013

Net sales for business in Mexico and Latin America were \$195 million in 2014 compared with \$197 million in 2013. The decrease of \$2 million in sales includes an unfavorable impact due to currency translation of \$7 million primarily due to the weakening of the Mexican Peso to the U.S. Dollar and a decrease in gypsum wallboard of \$6 million due to lower volumes in Mexico and a decrease in price in Latin America. Offsetting these decreases is a \$2 million increase in Durock® due to increased volume and price, a \$2 million increase in joint treatment due to increased volume and price, and a \$7 million increase in other non-wallboard products due primarily to higher volume of industrial gypsum and Fiberock®.

Operating profit was \$19 million in 2014 compared with \$21 million in 2013. The decrease of \$2 million includes unfavorable currency translation of \$1 million. Also contributing to the decline in operating profit was a \$4 million decrease in gypsum wallboard and a \$1 million decrease in drywall steel. These declines were offset by a \$1 million increase in joint treatment, a \$2 million increase in Durock®, and a \$1 million increase in other products. Selling and administrative expenses were unchanged year over year.

GYPSUM TRANSPORTATION LIMITED

Net sales for our shipping company, Gypsum Transportation Limited, or GTL, were \$10 million in 2015 as compared to \$81 million in 2014. The decrease of \$71 million reflects the cancellation of a contract of affreightment in the fourth quarter of 2014 when our trading partner ceased performing under the contract. In 2015, we were party to a short term shipping contract prior to the sale of our two self-unloading vessels in April 2015.

Operating profit went from a loss of \$52 million in 2014 to operating profit of \$7 million in 2015. The profit in 2015 includes \$1 million of operating profit recorded in second quarter of 2015 reflecting the gain on the sale of our ships offset by charges incurred to wind down our shipping operations and a \$6 million recovery of a portion of the receivable owed to GTL by its trading partner that was fully reserved for in 2014. See Note 13 to the consolidated financial statements in Part II, Item 8 of this report for additional information.

Net sales were flat in 2014 compared with 2013. Operating profit decreased \$72 million from \$20 million in 2013 to an operating loss of \$52 million in 2014. The decrease reflects the 2014 long-lived asset impairment charge of \$60 million on the two shipping vessels owned by GTL and a \$15 million charge for contract costs related to a lease of an ocean vessel that were to be incurred over the remaining term without economic benefit to us and a loss on an uncollectible receivable owed to GTL by its trading partner which has since been partially recovered.

CANADIAN MINING

Net sales for our mining operation in Little Narrows, Nova Scotia, Canada, were \$6 million in 2015, \$5 million in 2014, and \$8 million in 2013. Operating loss was \$6 million in 2015, \$3 million in 2014, and \$10 million in 2013. 2014 included a reduction to the estimates of reclamation activities required for our mining operations in Canada that did not recur in 2015.

Table of Contents

CEILINGS

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

(millions)	2015	2014	2013(b)	Favorable (Unfavorable)		2014 vs. 2013	
				2015 vs. 2014			
				\$	%	\$	%
Net Sales:							
United States	\$467	\$464	\$471	\$3	1	% \$(7)	(1)%
USG International (a)	—	7	51	(7)	(100)	% (44)	(86)%
Canada	51	57	61	(6)	(11)	% (4)	(7)%
Mexico / Latin America	36	39	39	(3)	(8)	% —	*
Eliminations	(55)	(54)	(54)	(1)	(2)	% —	*
Total	\$499	\$513	\$568	\$(14)	(3)	% \$(55)	(10)%
Operating Profit:							
United States	\$81	\$74	\$81	\$7	9	% \$(7)	(9)%
USG International (a)	—	—	(3)	—	*	3	100%
Canada	3	6	11	(3)	(50)	% (5)	(45)%
Mexico / Latin America	5	7	9	(2)	(29)	% (2)	(22)%
Total	\$89	\$87	\$98	\$2	2	% \$(11)	(11)%

* not meaningful

USG International's net sales and operating profit for the year ended December 31, 2014 include the results of our (a) wholly-owned subsidiaries and consolidated joint ventures that were contributed to UBBP through February 27, 2014. The comparative 2013 period include the results of those entities for the full year presented.

(b) Operating profit for 2013 included a pension settlement charge of \$2 million.

UNITED STATES

2015 COMPARED WITH 2014

Net sales for our domestic ceilings business increased to \$467 million in 2015, a \$3 million, or 1%, increase from \$464 million in 2014. The increase reflected the following:

(millions)	Sales		Volume		Price	
	\$	%	\$	%	\$	%
Change to 2015 from 2014						
Ceiling grid	\$1	1	% \$1	1	% \$—	—
Ceiling tile	2	1	% (1)	—	% 3	1
Total increase in net sales	\$3	1	%			

The increase in sales for ceiling tile was driven by a price increase implemented in the first quarter of 2015 which was partially offset by a reduction in volume.

Table of Contents

Operating profit of \$81 million in 2015 increased \$7 million, or 9%, The increase reflected the following:

(millions)	Operating Profit	Volume	Price	Cost
	\$	\$	\$	\$
Change to 2015 from 2014				
Ceiling grid	\$1	\$1	\$—	\$—
Ceiling tile	5	(1	) 3	3
Other	1			
Total increase in operating profit	\$			