

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

New York Stock Exchange

Agreement dated December 21, 2006, as amended)

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. x

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 desulphurization 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.