USG CORP
Form 10-K
February 12, 2015

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

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

Commission File Number 1-8864
USG CORPORATION
(Exact name of Registrant as Specified in its Charter)

Delaware	36-3329400
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
550 W. Adams Street, Chicago, Illinois	60661-3676
(Address of Principal Executive Offices)	(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
Common Stock, $0.10 par value	New York Stock Exchange Chicago Stock Exchange
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 x No o

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 o No x

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 x No o

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 x No o
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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No x
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, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $2,583,001,211. 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, 2015 was 144,846,861.

Documents Incorporated By Reference: Certain sections of USG Corporation's definitive Proxy Statement for use in connection with its 2015 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

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, in particular, conditions in the North American housing and construction-based markets, which are our most significant markets.

For the new residential construction market, housing starts are a very good indicator of demand for our gypsum products. Installation of our gypsum products 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 8.7% in 2014 to 1,005,800 compared with 924,900 in 2013. This followed an 18.7% increase in 2013 compared with 2012. For December 2014, the seasonally-adjusted annualized rate of housing starts was reported by the U.S. Census Bureau to be 1,089,000 units. While housing starts increased for the fifth consecutive year in 2014, they are still low by historical standards. 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 2015 housing starts in the United States included in the most recent Blue Chip Economic Indicators are 1,080,000 to 1,260,000 units, based upon the average of the bottom ten and top ten forecasts included in the report, respectively. We currently estimate that 2015 housing starts in the United States will be at the middle of the range of 1,000,000 to 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 increased 5% in 2014 compared with 2013. This followed a 12% increase in 2013 compared with 2012 and a 11% increase in 2012 compared with 2011. Dodge Data & Analytics forecasts that total floor space for which new nonresidential construction contracts in the United States are signed will increase approximately 11% in 2015 from the 2014 level. Dodge Data & Analytics's 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 2015 compared to 2014 will be in the mid-single digits.

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 decreased to approximately 4.93 million units in 2014 reflecting a 3% decrease from the 2013 level of 5.09 million units, which was an increase of 9% from 2012. Even with the slight decrease in the current year, existing home sales and home resale values have contributed to an increase for our products from the residential repair and remodel market. We currently estimate that overall repair and remodel spending in 2014 increased approximately 1% over the 2013 level and that overall repair and remodel spending growth in 2015, compared to 2014, will be in the low- to mid-single digits.

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 such as employment, foreclosures, house price trends, availability of mortgage financing, interest rates, income tax policy, consumer confidence, lease turnover rates, discretionary business investment, job growth and governmental building-related expenditures.

We expect improvement over the next twelve months in the construction industries in our largest international markets, Canada and Mexico. Emerging markets, including those that are within the territory of our 50/50 joint ventures, USG Boral Building Products, or UBBP, provide opportunities for our operations to serve the increasing demand for products in these regions. Although the rate of growth in certain emerging markets has slowed, we expect the growth in these markets to exceed the improvement in North America. We anticipate that the results from UBBP will enable us to dampen some of the future cyclicality in our business.

Table of Contents

Since January 2007, we have temporarily idled or permanently closed approximately 3.8 billion square feet of our highest-cost gypsum wallboard, paper and other production facilities. We eliminated approximately 4,830 salaried and hourly positions between 2007 and 2012. As part of our efforts to reduce the cost structure of our distribution business, which is comprised of L&W Supply Corporation and its subsidiaries, or L&W Supply, we closed a total of 125 distribution branches during that same time frame. L&W Supply did not close any branches during 2014 and 2013, and, as of December 31, 2014, served its customers from 145 distribution branches in the United States, including two new distribution branches opened during 2014. We continue to monitor economic conditions in our markets and will adjust our operations as needed.

The effects of recent market conditions on our operations are discussed in this Item 1 and in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

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 (Boral). These joint ventures are herein referred to as USG Boral Building Products, or UBBP. UBBP distributes and sells certain building products, mines raw gypsum and sells natural and synthetic gypsum throughout Asia, Australasia and the Middle East (the "Territory"). The products that USG and Boral manufacture and distribute through UBBP include products for wall, ceiling, floor lining and exterior systems that utilize gypsum, plasterboard (wallboard), mineral fiber ceiling tiles, steel grid and studs, joint compound and other products. 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. As discussed below, UBBP now comprises one of our segments.

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 venture were deconsolidated. 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.

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, UBBP, we have determined UBBP to be our fourth 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 prior period results have been recast to reflect these changes and present comparative year-over-year results.

As a result of these changes, our operations are now organized into four reportable segments: Gypsum, Ceilings, Distribution, and UBBP. The net sales of Gypsum, Ceilings, and Distribution accounted for approximately 56%, 12% and 32%, respectively, of our 2014 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

Previously referred to as North American Gypsum, 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, the gypsum business of CGC Inc., or CGC, in Canada, the gypsum businesses of USG Mexico, S.A. de C.V., or USG Mexico, along with our gypsum businesses 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 2014. 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 59% market share in 2014.

PRODUCTS

Gypsum's products are used in a variety of building applications to construct the walls, ceilings, roofs and floors of residential, commercial and institutional buildings, as well as in certain industrial applications. These products provide aesthetic as well as sound-dampening, fire-retarding, abuse-resistance and moisture-control value. The majority of these products are sold under the Sheetrock® brand name, including a broad portfolio of gypsum panels and a line of joint compounds, corner beads, and tape

2

used for finishing wallboard joints. The DUROCK® line of cement board and accessories provides water-resistant and fire-resistant assemblies for both interior and exterior applications. The FIBEROCK® line of gypsum-fiber panels includes abuse-resistant interior wall panels, tile backer boards, and flooring underlayments. The SECUROCK® line of products includes glass faced gypsum panels used for exterior sheathing and roof cover boards, as well as gypsum fiber panels used as roof cover boards. The LEVELROCK® line of poured gypsum underlayments provides surface leveling and enhanced sound-dampening performance for residential and commercial flooring applications. Our construction plaster products, sold under the brand names RED TOP®, IMPERIAL®, DIAMOND® and SUPREMO®, are used to provide a custom finish for residential and commercial interiors. These products provide aesthetic, sound-dampening, fire-retarding and abuse-resistance value. 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.

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. We have since extended our lightweight portfolio with the introductions of USG Sheetrock® Brand UltraLight Panels Firecode 30® and USG Sheetrock® Brand UltraLight Panels Firecode X® for fire rated assemblies, USG Sheetrock® Brand UltraLight Panels Mold Tough®, the industry's first lighweight moisture- and mold-resistant wallboard, USG Sheetrock® Brand MH UltraLight Gypsum Panels for manufactured housing, and USG Sheetrock® Brand UltraLight Gypsum Base Imperial® for veneer plaster systems. USG Sheetrock® Brand UltraLight Panels accounted for 63% of all of our wallboard shipments in the United States in 2014 and 55% in 2013.

MANUFACTURING

Gypsum manufactures products at 40 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 59% of the gypsum used by our plants in North America in 2014.

Some of our manufacturing plants purchase or acquire synthetic gypsum and natural gypsum rock from outside sources. In 2014, outside purchases of synthetic gypsum and natural gypsum rock accounted for approximately 36% and 5%, 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. We generally take possession of the gypsum at the producer’s facility and transport it to our wallboard plants by ship, river barge, railcar or truck. Six of our 19 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, or U.S. EPA, 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 purchase any wallboard paper from outside suppliers during 2014.

MARKETING AND DISTRIBUTION

Our gypsum products are distributed through L&W Supply, 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 2014 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%.

Table of Contents

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 21.8 billion square feet in 2014, up approximately 4% from 20.9 billion square feet in 2013. 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 2014, unchanged from 2013.

Our competitors in the United States include: National Gypsum Company, CertainTeed Corporation (a subsidiary of Compagnie de Saint-Gobain SA), Georgia-Pacific (a subsidiary of Koch Industries, Inc.), American Gypsum Company LLC (a unit of Eagle Materials Inc.), Continental Building Products LLC and PABCO Gypsum (a division of PABCO Building Products). Our competitors in Canada include CertainTeed Corporation, Georgia-Pacific and Cabot Gypsum Company. Our major competitors in Mexico include Panel Rey, S.A. (a Grupo Promax Company) and Plaka (a unit of Comex). The principal methods of competition are quality of products, service, pricing, compatibility of systems and product design features.

Ceilings

BUSINESS

Previously referred to as Worldwide Ceilings, 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, the ceilings business of CGC, and our ceilings businesses in Mexico and 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.

Through February 27, 2014, our Ceilings reportable segment also included our businesses in the Asia-Pacific region (see Recent Developments above regarding UBBP), which were included in USG International.

On August 7, 2012, USG and its indirect wholly owned subsidiaries, USG Foreign Investments, Ltd. and USG (U.K.) Ltd., together the Sellers, entered into a Share and Asset Purchase Agreement with Knauf International GmbH and Knauf AMF Ceilings Ltd., together Knauf, pursuant to which we agreed to sell to Knauf all of our wholly owned European business operations. These businesses include the manufacture and distribution of DONN® brand ceiling grid and SHEETROCK® brand finishing compounds principally throughout Europe, Russia and Turkey. The results of our European business operations have been presented as discontinued operations in the consolidated financial statements and accompanying footnotes presented in Item 8 of this report and were previously included in our Ceilings segment. On December 27, 2012, the sale transaction was consummated and we received net proceeds of $73 million and recognized a gain of $55 million. See Note 4 to the consolidated financial statements in Part II, Item 8 of this report for additional information related to discontinued operations.

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. USG Interiors' significant brand names include the RADAR™, ECLIPSE™, MARS™, and HALCYON™ brands of ceiling tile and the DONN®, DX®, FINELINE®, CENTRICITEE™, DXI IDENTITEE™, CURVATURA™ and COMPASSO™ brands of ceiling grid.

MANUFACTURING

Ceilings manufactures products at 10 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 2014, approximately 69% of Ceilings' net sales were from repair and remodel activity, primarily nonresidential, 28% of its net sales were from new nonresidential construction and 3% 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.

Table of Contents

COMPETITION
Our principal competitors in acoustical ceiling tile include Armstrong World Industries, Inc., Compagnie de Saint-Gobain SA, Knauf AMF GmbH & Co. KG, Odenwald Faserplattenwerk GmbH (OWA), and Rockwool International. Our principal competitors in ceiling grid include WAVE (a joint venture between Armstrong World Industries, Inc. and Worthington Industries), Compagnie de Saint-Gobain SA and Rockwool International. Principal methods of competition are quality of products, service, pricing, compatibility of systems and product design features.

Distribution

BUSINESS
Previously referred to as Building Products Distribution, our Distribution segment consists of L&W Supply, a leading distributor of gypsum wallboard and other building materials in the United States. In 2014, L&W Supply distributed approximately 7% of all gypsum board in the United States, including approximately 29% of U.S. Gypsum's gypsum board production. During 2014, 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 36% of its 2014 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, LLC, 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'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 approximately 90% of its facilities from third parties. Typical leases have terms of five years and include renewal options.

During the economic downturn, L&W Supply focused on reducing its cost structure and optimizing utilization of its personnel and assets. As a result, L&W Supply closed 125 distribution branches between January 2007 and September 2012. The closures were widely dispersed throughout the markets that L&W Supply serves. L&W Supply did not close any branches during 2013 and 2014, and, as of December 31, 2014, served its customers from 145 distribution branches in the United States, including two new distribution branches opened during 2014.

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 ProBuild Holdings Inc., a national supplier of building materials, Gypsum Management Supply with locations in the southern, central and western United States, KCG, Inc. in the southwestern and central United States, and Allied Building Products Corporation in the northeastern, central and western United States. Principal methods of competition are location, service, range of products and pricing.

USG Boral Building Products

BUSINESS
USG Boral Building Products, or UBBP, are 50/50 joint ventures formed on February 27, 2014 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 is a leader in most of the markets it serves.

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 studs 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 and Thailand. UBBP is able to sell USG Boral Sheetrock® at a premium price and, in some markets, conversion rates have surpassed 10%.

Table of Contents

MANUFACTURING
UBBP has 24 plasterboard lines and 37 other non-board production facilities for metal stud, metal ceiling grid, ceiling tile, joint compound, and cornice throughout the Territory including Australia, New Zealand, Indonesia, Malaysia, Philippines, Thailand, China, South Korea, Vietnam, and India.

Executive Officers of the Registrant

See Part III, Item 10, Directors, Executive Officers and Corporate Governance - Executive Officers of the Registrant (as of February 12, 2015).

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 charge research and development expenditures to earnings as incurred. These expenditures amounted to $23 million in 2014, $21 million in 2013 and $18 million in 2012.

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 are continuing to develop new products, systems and services to address market demand for products that enable construction of buildings that require 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, systems and services 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 typically do not hedge beyond three years. 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% of our consolidated net sales in 2014 and approximately 15% in both 2013 and 2012. Our Gypsum, Ceilings and Distribution segments had net sales to The Home Depot, Inc. in each of those years.

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

None of our segments has any special working capital requirements.

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.

Table of Contents

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, 2014, we had approximately 8,900 employees worldwide.

See Note 16 and Note 3 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 for financial information pertaining to UBBP, respectively, 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 and operating results 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. Adverse developments or changes related to any of the factors listed below could affect our business, financial condition, operating results and cash flows.

Our business is cyclical in nature, and is particularly dependent on the housing and construction-based markets. Continued weakness, 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 in nature 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 still remain low by historical standards. Further, the residential and non-residential repair and remodel market, which accounts for the largest portion of our sales, decreased over the prior year, following modest year over year increases, after years of substantial decline. Since January 2007, we permanently closed or temporarily idled certain of our highest cost gypsum wallboard, paper and other production facilities. We have recorded long-lived asset impairment charges aggregating approximately $175 million since January 2007 related to these closures and idled facilities. If our markets do not return to historic levels, or if they experience future downturns, additional material write-downs or impairment charges may be required in the future.

We cannot predict the duration of the current market conditions, or the timing or strength of any recovery of the housing and construction-based markets, which may depend on broader economic issues such as employment, the availability of credit, lending practices, interest rates, foreclosures, house price trends, availability of mortgage financing, income tax policy, and consumer confidence and preference. We also cannot provide any assurances that the housing and construction-based markets will continue to recover, or that further operational adjustments will not be required to address market conditions. Continued weakness, delays in recovery, or future downturns in the housing and construction-based markets 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 and our competitors' 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. Further, a majority of our businesses are seasonal, which has caused in the past, and will likely cause in the future, our quarterly results to vary significantly from quarter to quarter. A prolonged continuation 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 recently implemented a price increase for wallboard with the new price for January 1, 2015 through October 31, 2015. However, it is uncertain that we will be able to maintain the increase in our gypsum wallboard selling prices. If we are unable to maintain our price increases, our net sales and operating profit may be materially and adversely impacted.

Our customers and suppliers are exposed to risks associated with economic and financial conditions that could adversely affect their payment of our invoices or the continuation of their businesses at the same level.

The businesses of many of our customers and suppliers are exposed to risks related to the current economic environment. 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 suppliers, or a significant number of smaller customers or suppliers, are adversely affected by these risks, we may face disruptions in supply, further 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.

Our substantial indebtedness may adversely affect our business, financial condition and operating results.

We have a substantial amount of indebtedness. As of December 31, 2014, we had $2.209 billion of total debt, consisting of senior notes, industrial revenue bonds and outstanding borrowings under our ship mortgage facility. Our substantial indebtedness may have material adverse effects on our business, financial condition and operating results, including to:

- make it more difficult for us to satisfy our debt service obligations or refinance our indebtedness;

8

Table of Contents

- 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 and other general operating requirements;
- limit our ability to obtain additional financing to fund our working capital requirements, capital expenditures, acquisitions, investments, debt service obligations and other general corporate requirements;
- restrict us from making strategic acquisitions, taking advantage of favorable business opportunities or executing our strategic priorities;
- 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, which may adversely affect our operating results and ability to meet our debt service obligations;
- increase our vulnerability to the current and potentially more severe adverse general economic and industry conditions; and
- limit our ability, or increase the cost, to refinance our indebtedness.

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 substantial 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

Table of Contents

recognition and loyalty, enhance product quality and performance, introduce new products and develop our manufacturing and distribution capabilities.

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, particularly during any prolonged period of disruption.

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 and operating results.

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 and operating results may be materially and adversely affected.

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. 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.

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 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, health care cost trend rates. 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 and operating results.

Our pension plans were underfunded by approximately $346 million as of December 31, 2014 and $114 million as of December 31, 2013. 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 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.

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

---

Table of Contents

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, or CCB, resulting primarily from flue gas desulphurization carried out by electric generation or industrial plants burning coal as a fuel. Six of our 19 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 the event more power companies switch to using natural gas instead of coal, the availability of synthetic gypsum may decrease. 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.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC has promulgated rules regarding disclosure of the presence in a company’s products of certain metals, known as “conflict minerals,” which are metals mined from the Democratic Republic of the Congo and adjoining countries, as well as procedures regarding a manufacturer’s efforts to identify the sourcing of those minerals from this region. Complying with these rules requires investigative efforts, which has and will continue to cause us to incur associated costs, and could adversely affect the sourcing, supply, and pricing of materials used in our products, or result in process or manufacturing modifications, all of which could adversely affect our business, financial condition, operating results and cash flows.

Fluctuations in the market price of natural gas may have a material adverse effect on our business, financial condition and operating results.

We use natural gas extensively in the production of gypsum and interior systems products in the United States, Canada and Mexico. As a result, our profitability and cash flows can be highly dependent on the price of natural gas, which historically has been very volatile and is affected by numerous factors beyond our control. We are not always able to pass on increases in energy costs to our customers through increases in product prices.

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;

Table of Contents

- 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, including the Ebola epidemic, 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.

USG Boral Building Products reduces our control over certain of our 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. Accordingly, we may not be able to obtain approval of certain matters that would be in our best interests.
- 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 (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.
- We have provided unconditional and irrevocable guarantees of the obligations of our subsidiaries under two share sale and subscription agreements and the Shareholders Agreement (together, the "Joint Venture Agreements") and have agreed to indemnify Boral and its subsidiaries for all losses, actions, proceedings and judgments resulting from any default or delay in performance by our subsidiaries thereunder. Any such payments may have a material adverse effect on our business, financial condition and operating results.
- 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 impairing our rights under the Shareholders Agreement.

Table of Contents

- Boral may become insolvent, refuse to make additional capital contributions or fail to meet its obligations under the Joint Venture Agreements, which may result in certain liabilities to us for guarantees and other commitments.
- Boral may have economic or other business interests or goals that are or become inconsistent with our interests or goals, or 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.
- 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 negatively impacted.

Our business, financial condition and operating results 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 and operating results.

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.

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;

13

Table of Contents

- sell assets or make other fundamental changes;
- engage in mergers and acquisitions;
- 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.

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, we 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. For example, 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, one of our primary raw materials, 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. In addition, the Occupational Safety and Health Administration has proposed a comprehensive occupational health standard for crystalline silica 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 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 (GHGs), including carbon dioxide and methane. Some states and provinces have already adopted greenhouse gas 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. These rules, if they withstand legal challenge, could affect 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.

Table of Contents

We may pursue acquisitions, joint ventures and other transactions that 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, including UBBP, 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.

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.

Our financial results may be affected by various legal and regulatory proceedings, including those involving antitrust, tax, environmental, or other matters.

We are subject to litigation and regulatory proceedings in the normal course of business and could become subject to additional claims in the future, some of which could be material. The outcome of existing legal proceedings may differ from our expectations because the outcomes of litigation and similar disputes are often difficult to predict reliably. Various factors and developments can lead to changes in current estimates of liabilities and related insurance receivables, where applicable, or make additional estimates, including new or modified estimates that may be appropriate due to a judicial ruling or judgment, a settlement, 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.

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 to reduce its federal income taxes if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. If we were to experience an ownership change, utilization of our NOLs would be subject to an annual limitation determined by multiplying the market value of our outstanding shares of stock at the time of the ownership change by the applicable long-term tax-exempt rate (which was 2.80% for December 2014). Any unused annual limitation may be carried over to later years within the allowed NOL carryforward period. The amount of the limitation may, under certain circumstances, be increased or decreased by built-in gains or losses held by us at the time of the change that are recognized in the five-year period after the change. Many states have similar limitations. If an ownership change had occurred as of December 31, 2014, our annual U.S. federal NOL utilization would have been limited to approximately $113 million per year.

We may use our NOL carryforwards to offset future earnings and reduce our federal income tax liability. As a result, we believe these NOL carryforwards are a substantial asset for us. We have a stockholder rights plan, or the Rights Agreement, in place to protect our stockholders from coercive takeover practices or takeover bids that are inconsistent with their best interests. On March 22, 2013 and February 11, 2015, our board of directors approved 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, that restricts certain transfers of our common stock. The Protective Amendment is intended to protect the tax benefits of our

Table of Contents

NOLs. See Note 20 to the consolidated financial statements in Part II, Item 8 of this report for a description of the amendment to the Rights Agreement and the Protective Amendment. Although the amendment 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 amendment 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 enforceable against all of our shareholders 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 and other information available to us, we believe that, as of January 31, 2015, two stockholders collectively controlled over 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. 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.

We have outsourced certain corporate and operational functions, which makes us more dependent on third parties.

We have outsourced certain elements of our corporate and operational functions, including certain elements of our finance, accounting and information technology functions, to third party service providers, some of whom operate outside of the United States. We may outsource additional functions in the future. As a result, we rely on third parties to ensure that these functions are sufficiently performed. This reliance subjects us to risks arising from the loss of control over certain processes, changes in pricing that may affect our operating results, and the termination of provision of these services by our suppliers. A failure of our service providers to satisfactorily perform these functions may have an adverse effect on our business and operating results.

Our continuing efforts to return to historic levels of profitability by reducing costs may not result in the anticipated savings in operating costs.

We have implemented various cost reduction programs to lower our breakeven and return to historic levels of profitability, including plant and distribution branch closures, workforce reductions, outsourcing of corporate and operational function and Lean Six Sigma initiatives. We may implement additional programs in the future. These cost reduction programs may not produce anticipated results. Our ability to achieve cost savings and other benefits within expected time frames is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays, if anticipated market recovery does not occur, or if other unforeseen events occur, our business, financial condition, operating results and cash flows could be adversely impacted.

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 for a return on their investment.

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2.PROPERTIES

We operate plants, mines, quarries, transport ships and other facilities in North America, South America and other regions. U.S. Gypsum's SHEETROCK® brand gypsum wallboard plants operated at approximately 56% of capacity during 2014. USG Interiors' ceiling tile plants operated at approximately 77% of capacity during 2014. The locations of our production properties in operation as of December 31, 2014, grouped by reportable segment, are as follows (plants are owned unless otherwise indicated):

Gypsum

GYPSUM WALLBOARD AND OTHER GYPSUM PRODUCTS

Aliquippa, Pennsylvania*	Plaster City, California	Hagersville, Ontario, Canada**
Baltimore, Maryland**	Rainier, Oregon	Montreal, Quebec, Canada **
Bridgeport, Alabama*	Shoals, Indiana**	Monterrey, Nuevo Leon, Mexico
East Chicago, Indiana*	Sigurd, Utah	Puebla, Puebla, Mexico
Galena Park, Texas*	Sperry, Iowa**	Tecoman, Colima, Mexico
Jacksonville, Florida**	Sweetwater, Texas	
Norfolk, Virginia*	Washingtonville, Pennsylvania*	

JOINT COMPOUND (SURFACE PREPARATION AND JOINT TREATMENT PRODUCTS)

Auburn, Washington	Galena Park, Texas	Calgary, Alberta, Canada***
Baltimore, Maryland	Gypsum, Ohio	Hagersville, Ontario, Canada
Bridgeport, Alabama	Jacksonville, Florida	Montreal, Quebec, Canada
Chamblee, Georgia	Phoenix (Glendale), Arizona	Surrey, British Columbia, Canada***
Dallas, Texas	Port Reading, New Jersey	Monterrey, Nuevo Leon, Mexico
East Chicago, Indiana*	Sigurd, Utah	Puebla, Puebla, Mexico
Fort Dodge, Iowa	Torrance, California	Buenos Aires, Argentina***
		Lima, Peru

CEMENT BOARD

Baltimore, Maryland	New Orleans, Louisiana	Monterrey, Nuevo Leon, Mexico
Detroit (River Rouge), Michigan		

GYPSUM ROCK (MINES AND QUARRIES)

Alabaster (Tawas City), Michigan	Sigurd, Utah	Hagersville, Ontario, Canada
Fort Dodge, Iowa	Southard, Oklahoma	Little Narrows, Nova Scotia, Canada
Plaster City, California	Sperry, Iowa	Monterrey, Nuevo Leon, Mexico
Shoals, Indiana	Sweetwater, Texas	San Luis Potosi, San Luis Potosi, Mexico
		Tecoman, Colima, Mexico

PAPER FOR GYPSUM WALLBOARD

Galena Park, Texas	Oakfield, New York
North Kansas City, Missouri	Otsego, Michigan

* Plants supplied fully by synthetic gypsum

** Plants supplied partially by synthetic gypsum

*** Leased

Table of Contents

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, Washington and Weirton, West Virginia (leased). We also manufacture cement panels at a manufacturing facility in Delavan, Wisconsin (leased).

OCEAN VESSELS

Gypsum Transportation Limited, or GTL, our wholly owned subsidiary, owns two, and leases one, self-unloading ocean vessel. Prior to 2012, these vessels were used primarily to transport gypsum rock from our Nova Scotia quarries to our East Coast plants. However, due to the increased use of synthetic gypsum in the manufacture of wallboard at our East Coast plants, the utilization of these vessels dropped significantly. Accordingly, we sought an alternate use for the vessels and currently transship iron ore for a third party on a temporary basis. See Note 14 to the consolidated financial statements in Part II, Item 8, of this report.

Ceilings

CEILING GRID

Cartersville, Georgia	Stockton, California	Oakville, Ontario, Canada
Westlake, Ohio		

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).

CEILING TILE

Cloquet, Minnesota	Greenville, Mississippi	Walworth, Wisconsin

OTHER PRODUCTS

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

Item 3. LEGAL PROCEEDINGS

See Part II, Item 8, Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements, Note 22, 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 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND 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, 2015, there were 2,482 record holders of our common stock. We currently do not pay dividends on our common stock. Our credit agreement restricts our ability to pay cash dividends on, or repurchase, our common stock. See Item 8, Financial Statements and Supplementary Data, Note 7, Debt, for more information regarding these restrictions.

We did not purchase any of our equity securities during the fourth quarter of 2014.

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, four of our non-employee directors deferred the $120,000 annual grant they were entitled to receive on December 31, 2014 under our Non-Employee Director Compensation Program, into a total of 17,091 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 2014 and 2013 were as follows:

	2014		2013	
	High	Low	High	Low
First quarter	$35.85	$28.41	$30.44	$26.44
Second quarter	33.16	29.20	29.25	22.19
Third quarter	30.04	26.45	28.58	23.06
Fourth quarter	29.65	24.55	28.77	25.13

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, 2014.

	Value of Investment as of December 31					
	2009	2010	2011	2012	2013	2014
USG	$100	$120	$72	$200	$202	$199
S&P 500	100	115	117	136	180	205
DJUSCN	100	120	112	157	203	200

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,				
	2014	2013	2012	2011 (a)	2010 (a)
Statement of Operations Data:					
Net sales	$3,724	$3,570	$3,224	$2,910	$2,834
Cost of products sold	3,070	2,989	2,829	2,752	2,697
Gross profit	654	581	395	158	137
Selling and administrative expenses	339	320	304	289	295
Litigation settlement charge (b)	48	—	—	—	—
Long-lived asset impairment charges (c)	90	—	8	53	58
Contract termination charge and loss on receivable (d)	15	—	—	—	—
Restructuring charges	—	3	10	22	52
Operating profit (loss)	162	258	73	(206)	(268)
Income from equity method investments	35	1	—	1	—
Interest expense	(179)	(203)	(206)	(211)	(183)
Interest income	1	3	4	6	5
Loss on extinguishment of debt	—	—	(41)	—	—
Gain on deconsolidation of subsidiaries and consolidated joint ventures (e)	27	—	—	—	—
Other expense, net	—	—	—	—	(1)
Income (loss) from continuing operations before income taxes	46	59	(170)	(410)	(447)
Income tax (expense) benefit	(7)	(11)	(12)	14	37
Income (loss) from continuing operations	39	48	(182)	(396)	(410)
Income (loss) from discontinued operations, net of tax	(1)	(2)	2	6	5
Gain on sale of discontinued operations, net of tax	—	—	55	—	—
Net income (loss)	38	46	(125)	(390)	(405)
Less: Net income (loss) attributable to noncontrolling interest	1	(1)	1	—	—
Net income (loss) attributable to USG	$37	$47	$(126)	$(390)	$(405)
Income (loss) from continuing operations per common share:					
Basic	0.27	0.45	(1.72)	(3.81)	(4.08)
Diluted	0.26	0.44	(1.72)	(3.81)	(4.08)
Balance Sheet Data (as of the end of the year):					
Working capital	$589	$1,132	$776	$715	$924
Current ratio	2.05	2.99	2.41	2.36	2.75
Cash and cash equivalents	228	810	546	365	629
Property, plant and equipment, net	1,908	2,103	2,100	2,104	2,252
Total assets	3,994	4,121	3,723	3,719	4,087
Long-term debt (f)	2,205	2,292	2,305	2,297	2,301
Total stockholders' equity	408	662	19	156	619
Other Information:					
Capital expenditures	$132	$124	$70	$54	$38
Closing stock price per common share as of December 31	$27.99	$28.38	$28.07	$10.16	$16.83

Average number of employees (g)	8,928	8,732	8,758	8,880	9,450

(a) Amounts reflected above have been adjusted from the originally reported amounts to reflect our European businesses, which were sold on December 27, 2012, as discontinued operations. See Note 4 to our consolidated financial statements in Item 8 of this report.

(b) Reflects a charge related to the settlement of the U.S. wallboard pricing class action lawsuit. See Note 22 to our consolidated financial statements in 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 13 and Note 14 to our consolidated financial statements in Item 8 of this report.

(d) Item relates to our GTL operations. See Note 14 to our consolidated financial statements in Item 8 of this report.

(e) Reflects the gain recorded on the deconsolidation and contribution to UBBP of our wholly-owned subsidiaries in Singapore, Malaysia, New Zealand, and Australia and our consolidated joint ventures in Oman.

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

(g) As of December 31, 2014, we had approximately 8,900 employees worldwide. For 2011 and 2010, the average number of 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

Through our subsidiaries, we are a leading manufacturer and distributor of building materials. We produce a wide range of products for use in new residential, new nonresidential, and residential and nonresidential repair and remodel construction as well as products used in certain industrial processes. We estimate that during 2014

- residential and nonresidential repair and remodel activity accounted for approximately 53% of our net sales,
- new residential construction accounted for approximately 18% of our net sales,
- new nonresidential construction accounted for approximately 24% of our net sales, and
- other activities accounted for approximately 5% of our net sales.

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 have 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 prior period results have been recast to reflect these changes and present comparative year-over-year results.

Our operations are organized into four segments: Gypsum, Ceilings, Distribution, and UBBP.

Gypsum: Previously referred to as North American Gypsum, 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, the gypsum business of CGC Inc., or CGC, in Canada, the gypsum businesses of USG Mexico, S.A. de C.V., or USG Mexico, along with our gypsum businesses in Latin America. Gypsum's products are used in a variety of building applications to finish the walls, ceilings and floors in residential, commercial and institutional construction and in certain industrial applications. Its major product lines include USG Sheetrock® brand gypsum wallboard, a line of joint compounds used for finishing wallboard joints also sold under the SHEETROCK® brand name, DUROCK® brand cement board, FIBEROCK® brand gypsum fiber panels and SECUROCK® brand glass mat sheathing used for building exteriors and gypsum fiber and glass mat panels used as roof cover board.

Ceilings: Previously referred to as Worldwide Ceilings, our Ceilings reportable segment manufactures and markets interior systems products in the United States, Canada, Mexico and Latin America. Ceilings includes USG Interiors, LLC, or USG Interiors, the ceilings business of CGC, and our ceilings businesses in Mexico and Latin America. In addition, through February 27, 2014, it also included our businesses in the Asia-Pacific region, 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 Discontinued Operations and in Note 4 to our consolidated financial statements in Part II, Item 8 of this report, our European business operations were classified as discontinued operations during the third quarter of 2012; therefore, the segment results for Ceilings exclude the results of these operations. On December 27, 2012, the sale transaction was consummated and we received net proceeds of $73 million resulting in a gain of $55 million.

As discussed below under Key Strategies, on February 27, 2014, we invested with Boral in UBBP and in connection therewith contributed to UBBP our operations in the Asia-Pacific region. As such, Ceilings includes the results and activities of our subsidiaries in the Asia-Pacific region only through February 27, 2014.

Distribution: Previously referred to as Building Products Distribution, 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. 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.

Table of Contents

USG Boral Building Products (UBBP): 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 (Boral). These joint ventures are herein referred to as USG Boral Building Products, or UBBP. UBBP manufactures, distributes and sells certain building products, mines raw gypsum and sells natural and synthetic gypsum throughout Asia, Australasia and the Middle East (the "Territory"). The products that UBBP manufactures and distributes include products for wall, ceiling, floor lining and exterior systems that utilize gypsum wallboard, referred to as plasterboard in the region, mineral fiber ceiling tiles, steel grid and studs and joint compound.

As consideration for our 50% ownership in UBBP, we (i) made a $515 million cash payment to Boral, which includes a $500 million base price and $15 million of customary working capital and net debt adjustments, contributed to UBBP our subsidiaries and joint venture investments in China, Singapore, India, Malaysia, New Zealand, Australia and the Middle East, including our joint ventures in Oman, and 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 of $25 million based on performance during the first three years after closing and up to $50 million based on performance during the first five years after closing.

UBBP is targeting the distribution of 50% of combined after tax profits to USG and Boral in proportion to the respective ownership interests; 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, 2014, no dividends have been declared or paid by UBBP. We expect UBBP will begin to distribute cash dividends in 2015.

From February 27, 2014 through December 31, 2014, UBBP was 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 on February 27, 2014, 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 on a going forward basis. 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 consummated on February 27, 2014, and as a result, our share of ten months 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 2014, 83% 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 7%.

In 2014, UBBP's net sales were comprised of 34% to Australia, 21% to South Korea, 13% to China, 14% to Thailand, and other foreign countries accounted for the remaining 18%.

Table of Contents

FINANCIAL INFORMATION

Consolidated net sales increased for the fifth consecutive year in 2014, up $154 million, or 4%, compared to 2013. We had an operating profit of $162 million in 2014 compared to $258 million in 2013. Operating profit in 2014 included, among other items, $48 million in a litigation settlement charge, $90 million in asset impairment charges and $15 million in a contract termination charge and loss on receivable offset by a $12 million gain on sale of a surplus property. Our income from continuing operations was $39 million, or $0.26 per diluted share, in 2014 compared to an operating income from continuing operations of $48 million, or $0.44 per diluted share, in 2013. As of December 31, 2014, we had $382 million of cash and cash equivalents and marketable securities compared with $952 million as of December 31, 2013. Our total liquidity was $673 million as of December 31, 2014 (including $291 million of borrowing availability under our revolving credit facility) compared to $1.266 billion as of December 31, 2013 (including $314 million of borrowing availability under our revolving credit facilities). Liquidity as of December 31, 2013 included the net proceeds of our $350 million notes offering completed in October 2013, which we used, together with cash on hand, to fund our investments in UBBP on February 27, 2014.

KEY STRATEGIES

We continue to focus on the following strategic priorities:

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

In line with our strategy to diversify our earnings, on February 27, 2014, we and certain of our subsidiaries formed the 50/50 joint ventures, UBBP, 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"). The products that USG and Boral manufacture and distribute through UBBP include products for wall, ceiling, floor lining and exterior systems that utilize gypsum plasterboard, mineral fiber ceiling tiles, steel grid and studs, joint compound and other products. See Note 3 to the consolidated financial statements in Part II, Item 8 of this report for further information.

MARKET CONDITIONS AND OUTLOOK

Our businesses are cyclical in nature and sensitive to changes in general economic conditions, including, in particular, conditions in the North American housing and construction-based markets, which are our most significant markets. 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 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 8.7% in 2014 to 1,005,800 compared with 924,900 in 2013. This followed an 18.7% increase in 2013 compared with 2012. For December 2014, the seasonally-adjusted annualized rate of housing starts was reported by the U.S. Census Bureau to be 1,089,000 units. While housing starts increased for the fifth consecutive year in 2014, they are still low by historical standards. 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 2015 housing starts in the United States included in the most recent Blue Chip Economic Indicators are 1,080,000 to 1,260,000 units, based upon the average of the bottom ten and top ten forecasts included in the report, respectively. We currently estimate that 2015 housing starts in the United States will be at the middle of the range of 1,000,000 to 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 increased 5% in 2014 compared with 2013. This followed a 12% increase in 2013 compared with 2012 and a 11% increase in 2012 compared with 2011. Dodge Data & Analytics forecasts that total floor space for which new nonresidential construction contracts in the United States are signed will increase approximately 11% in

2015 from the 2014 level. Dodge Data & Analytics's 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 2015 compared to 2014 will be in the mid-single digits.

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

24

Table of Contents

buyers begin to remodel an existing home within two years of purchase. According to the National Association of Realtors, sales of existing homes in the United States decreased to approximately 4.93 million units in 2014, reflecting a 3% decrease from the 2013 level of 5.09 million units, which was a 9% increase from 2012. Even with the slight decrease in the current year, existing home sales and home resale values have contributed to an increase for our products from the residential repair and remodel market. We currently estimate that overall repair and remodel spending in 2014 increased approximately 1% over the 2013 level and that overall repair and remodel spending growth in 2015, compared to 2014, will be in the low- to mid-single digits.

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 such as employment, foreclosures, house price trends, availability of mortgage financing, interest rates, income tax policy, consumer confidence, lease turnover rates, discretionary business investment, job growth and governmental building-related expenditures.

We expect improvement over the next twelve months in the construction industries in our largest international markets, Canada and Mexico. Emerging markets, including those that are within the territory of our 50/50 joint ventures, UBBP, provide opportunities for our operations to serve the increasing demand for products in these regions. 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. We anticipate that the results from UBBP will enable us to dampen some of the future cyclicality in our business.

The housing and construction-based markets we serve are affected by broader economic issues such as employment, the availability of credit, lending practices, interest rates, availability of mortgage financing, income tax policy and consumer confidence and preference. 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.

During the last several years, our results of operations have been adversely affected by the economic downturn and uncertainty in the financial markets. Although our Gypsum segment has improved with the modest recovery in residential housing over the last three years, it continues to be adversely affected by the low level of residential and other construction activity compared to historical averages. Our Distribution segment, which serves the residential and commercial markets, and our Ceilings segment, which primarily serves the commercial markets, have both showed some improvements, however, they continued 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 21.8 billion square feet in 2014, up approximately 4% from 20.9 billion square feet in 2013.

U.S. Gypsum shipped 5.33 billion square feet of Sheetrock® brand gypsum wallboard in 2014, a 4% increase from 5.14 billion square feet in 2013. USG Sheetrock® Brand UltraLight Panels accounted for approximately 63% and 55% of that volume in 2014 and 2013, 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 2014, unchanged from 2013.

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, 2015. We estimate that the industry capacity utilization rate was approximately 74% and 73% during the fourth quarters of 2014 and 2013, respectively and approximately 66% and 64% during the full years 2014 and 2013, respectively. Based on current industry trends and forecasts, demand for gypsum wallboard is expected to increase in 2015, 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 2015 compared to 2014. 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 recently implemented a price increase for wallboard with the new price being set for January 1, 2015 through October 31, 2015. However, it is uncertain that we will be able to maintain the increase in our gypsum wallboard selling prices. If we are unable to maintain our price increases, our net sales and operating profit may be materially and adversely impacted.

Table of Contents

RESTRUCTURING, IMPAIRMENTS AND OTHER INITIATIVES

Since January 2007, we have temporarily idled or permanently closed approximately 3.8 billion square feet of our highest-cost wallboard, paper and other production facilities. We have eliminated approximately 4,830 salaried and hourly positions from 2007 to 2012. As part of our efforts to reduce the cost structure of our distribution business, we closed a total of 125 distribution branches during that same timeframe. During 2014, we recorded long-lived asset impairment charges of $30 million on certain manufacturing facilities and capitalized costs. Additionally, in 2014, we recorded long lived asset impairment charges of $60 million on two ocean vessels as a result of a terminated contract of affreightment with our trading partner who ceased operations in the fourth quarter. See Notes 13 and 14 to our consolidated financial statements in Item 8 of this report.

Historically, the housing and other construction markets that we serve have been deeply cyclical. Downturns in demand are typically steep and last several years, but they have typically been followed by periods of strong recovery. If the current recovery results in increases in demand similar to those realized in recoveries from past cycles, we believe we will generate significant cash flows when our markets fully recover. However, this recovery could be slower than recoveries in the past, as the most recent downturn was especially steep. We regularly monitor forecasts prepared by external economic forecasters and review our facilities and other assets to determine which of them, if any, are impaired under applicable accounting rules. If the recovery in our markets is delayed, or we experience a future downturn in the housing and construction-based markets, material write-downs or impairment charges may be required in the future. The magnitude, likelihood and timing of those possible charges would be dependent on the severity and duration of the downturn, should the downturn materialize, and cannot be determined at this time. Any material restructuring or impairment charges, including write-downs of property, plant and equipment, would have a material adverse effect on our results of operations and financial condition. We will continue to monitor economic forecasts and their effect on our facilities to determine whether any of our assets are impaired.

Our focus on costs and efficiencies, including capacity closures and overhead reductions, helped to mitigate the effects of the most recent downturn in all of our markets. As economic and market conditions warrant, we will evaluate alternatives to further reduce costs, improve operational efficiency and maintain adequate liquidity. Actions to reduce costs and improve efficiencies could require us to record additional restructuring charges. See Liquidity and Capital Resources below for information regarding our cash position and credit facilities.

Table of Contents

Consolidated Results of Operations

				Favorable (Unfavorable)			
				2014 vs. 2013		2013 vs. 2012	
(millions, except per-share data)	2014	2013	2012	$	%	$	%
Net sales	$3,724	$3,570	$3,224	$154	4 %	$346	11 %
Cost of products sold	3,070	2,989	2,829	(81)	(3)%	(160)	(6)%
Gross profit	654	581	395	73	13 %	186	47 %
Selling and administrative expenses	339	320	304	(19)	(6)%	(16)	(5)%
Litigation settlement charge	48	—	—	(48)	*	—	*
Long-lived asset impairment charges	90	—	8	(90)	*	8	100 %
Contract termination charge and loss on receivable	15	—	—	(15)	*	—	*
Restructuring charges	—	3	10	3	100 %	7	70 %
Operating profit	162	258	73	(96)	(37)%	185	*
Income from equity method investments	35	1	—	34	*	1	*
Interest expense	(179)	(203)	(206)	24	12 %	3	1 %
Interest income	1	3	4	(2)	(67)%	(1)	(25)%
Gain on deconsolidation of subsidiaries and consolidated joint ventures	27	—	—	27	100 %	—	*
Loss on extinguishment of debt	—	—	(41)	—	*	41	100 %
Income (loss) from continuing operations before income taxes	46	59	(170)	(13)	(22)%	229	*
Income tax expense	(7)	(11)	(12)	4	36 %	1	8 %
Income (loss) from continuing operations	39	48	(182)	(9)	(19)%	230	*
Income (loss) from discontinued operations, net of tax	(1)	(2)	2	1	50 %	(4)	*
Gain on sale of discontinued operations, net of tax	—	—	55	—	*	(55)	*
Net income (loss)	38	46	(125)	(8)	(17)%	171	*
Less: Net income (loss) attributable to noncontrolling interest	1	(1)	1	(2)	*	2	*
Net income (loss) attributable to USG	$37	$47	$(126)	$(10)	(21)%	$173	*
Diluted earnings (loss) per share - continuing operations	$0.26	$0.44	$(1.72)	$(0.18)		$2.16	

* not meaningful

NET SALES

Consolidated net sales in 2014 increased $154 million, or 4%, compared with 2013. This was our fifth consecutive year-on-year increase. 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.

Consolidated net sales in 2013 increased $346 million, or 11%, compared with 2012. Net sales increased 14% for our Gypsum segment, 2% for our Ceilings segment and 9% for our Distribution 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 higher level of net sales for Ceilings primarily reflected an increase in net sales for USG

International and USG Interiors, primarily driven by higher selling prices for ceiling tile and grid and higher volume for ceiling grid.

GROSS PROFIT

Gross profit was $654 million in 2014, $581 million in 2013 and $395 million in 2012. The increase for both 2014 compared with 2013 and 2013 compared to 2012 was primarily due to higher selling prices for USG Sheetrock®.

As a percentage of net sales, gross profit was 17.6% in 2014, 16.3% in 2013 and 12.3% 2012. The increase for 2014 compared with 2013 and 2013 compared to 2012 was primarily driven by higher selling prices for USG Sheetrock®, as discussed above.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses totaled $339 million in 2014, $320 million in 2013 and $304 million in 2012. As a percentage of net sales, selling and administrative expenses remained consistent at 9.1% in 2014, 9.0% in 2013 and 9.4% in 2012.

Table of Contents

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 22 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 and $8 million in 2012. There were no impairment charges on long-lived assets in 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). The charges in 2012 are primarily related to a change in estimate related to reclamation activities at our Windsor, Nova Scotia, Canada facility, which resulted in an increase in the related asset retirement obligation and the corresponding long-lived assets and a subsequent impairment of the long-lived assets. See Notes 13 and 14 to our consolidated financial statements in Part II, Item 8 of this report for additional information related to long-lived asset impairment.

CONTRACT TERMINATION CHARGE AND 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 will continue 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. See Note 14 to the consolidated financial statements in Part II, Item 8 of this report for additional information.

RESTRUCTURING CHARGES

In prior years, we implemented restructuring activities and as a result, recorded restructuring charges of $3 million in 2013 and $10 million in 2012. There were no restructuring charges recorded in 2014. These charges in prior years primarily related to salaried workforce reductions. See Note 15 to the consolidated financial statements in Part II, Item 8 of this report for additional information related to restructuring charges and reserves.

INCOME FROM EQUITY METHOD INVESTMENTS

Income from equity method investments was $35 million in 2014 and $1 million in 2013. There was none in 2012. The increase from 2013 to 2014 primarily reflects income of $33 million attributable to our share of the income of UBBP.

INTEREST EXPENSE

Interest expense was $179 million in 2014, $203 million in 2013 and $206 million in 2012. Lower interest expense primarily reflects a decrease of $28 million due to 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. This decrease is partially offset by $15 million of additional interest expense related to our $350 million of 5.875% senior notes that were issued in October 2013.

Lower interest expense in 2013 primarily reflects (a) the conversion of $325 million of our 10% convertible senior notes into common stock in December 2013 resulting in a decrease of $3 million of interest expense, (b) a $3 million increase in the amount of interest capitalized (lower interest expense) in 2013 compared to 2012 due to higher capital expenditures, and (c) lower interest expense of $2 million due to the second quarter 2012 refinancing of our 9.75% senior notes and the related the issuance of the 7.875% senior notes. These decreases were offset by $3 million of interest expense from our October 2013 issuance of $350 million of 5.875% senior notes and a $2 million bridge loan commitment fee.

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 second quarter of 2012, we recorded a $41 million loss on the extinguishment of debt, including premiums, the write-off of unamortized debt discount and deferred financing fees, in connection with the tender offer and repurchase of our 9.75% senior notes.

INCOME TAX EXPENSE

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

Table of Contents

from accumulated other comprehensive income (loss) related to the settlement of a pension plan for which we recorded a $13 million charge in 2014.

Our income tax expense for 2013 was $11 million compared with $12 million in 2012. Our effective tax rate in 2013 was 18.6%. 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.

The effective tax rate based on our income (loss) from continuing operations was (7.1)% for 2012. Since recording a full valuation allowance against our federal and state deferred tax assets in 2009, the effective tax rate is generally lower than statutory rates as we do not record a tax benefit from our losses in any domestic jurisdiction.

GAIN ON SALE OF DISCONTINUED OPERATIONS, NET OF TAX

On December 27, 2012, we completed the sale of our European operations and received net proceeds of $73 million, resulting in a gain on the sale of $55 million net of tax. See further discussion in Note 4 to our consolidated financial statements included in Part II, Item 8 of this report.

Table of Contents

Segment Results of Operations
GYPSUM
Net sales and operating profit (loss) for the businesses comprising our Gypsum segment were as follows:

				2014 vs. 2013 Favorable (Unfavorable)		2013 vs. 2012 Favorable (Unfavorable)	
(millions)	2014(a)	2013(b)	2012(c)	$	%	$	%
Net Sales:							
United States	$1,920	$1,765	$1,520	$155	9%	$245	16%
Canada	344	348	336	(4)	(1)%	12	4%
Mexico / Latin America	195	197	183	(2)	(1)%	14	8%
Other **	86	89	63	(3)	(3)%	26	41%
Eliminations	(142)	(137)	(114)	(5)	(4)%	(23)	(20)%
Total	$2,403	$2,262	$1,988	$141	6%	$274	14%
Operating Profit (Loss):							
United States	$192	$214	$84	$(22)	(10)%	$130	*
Canada	13	17	12	(4)	(24)%	5	42%
Mexico / Latin America	19	21	19	(2)	(10)%	2	11%
Other **	(55)	10	(5)	(65)	*	15	*
Eliminations	—	(1)	(1)	1	*	—	*
Total	$169	$261	$109	$(92)	(35)%	$152	*

* Not meaningful
** Includes our mining operation in Little Narrows, Nova Scotia, Canada and our shipping company
(a) 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 Other, and contract termination charge and loss on receivable of $15 million, which relates to Other.
(b) 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.
(c) Operating profit in 2012 included restructuring charges of $8 million and long-lived asset impairment charges of $7 million. These charges included $9 million related to our gypsum quarry and ship loading facility in Windsor, Nova Scotia, Canada, $5 million related to U.S. Gypsum and $1 million related to CGC (Gypsum).

UNITED STATES - 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 of $22 million 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.

UNITED STATES - 2013 COMPARED WITH 2012

Net sales in 2013 increased $245 million, or 16%, compared with 2012. Net sales of USG Sheetrock® brand gypsum wallboard increased $170 million, or 27%, reflecting an 17% increase in average gypsum wallboard selling prices, which increased sales by $115 million and a 9% increase in gypsum wallboard shipments which raised sales by $55 million. Net sales of products other than USG Sheetrock® brand gypsum wallboard were $966 million in 2013, a 9% increase compared with 2012. Net sales of SHEETROCK® brand joint compound were up $22 million due to a 6% increase in volumes and a 1% increase in selling prices. Net sales of DUROCK® brand cement board increased $10 million due to a 10% increase in volume. The improvement in sales also included an increase in net sales for FIBEROCK® brand gypsum fiber panels of $4 million primarily due to a 17% increase in volume. Net sales of other products, including freight, increased an aggregate of $40 million compared with 2012.

Operating profit in 2013 increased $130 million compared with 2012 reflecting (a) a gross profit increase of $128 million for USG Sheetrock® brand gypsum wallboard primarily due to higher selling prices, (b) a gross profit increase of $4 million for SHEETROCK® brand joint compound primarily due to higher volume and selling prices, partially offset by higher per unit costs, (c) a gross profit increase of $3 million for DUROCK® brand cement board primarily due to the increased volume, (d) a gross profit increase of $2 million for FIBEROCK® brand gypsum fiber panels due to the increased volume and, to a lesser extent, a 2% decrease in per unit costs, and (e) a $1 million aggregate increase in gross profit for other product lines. Operating profit was also favorably impacted by a $3 million decrease in restructuring charges and a $5 million decrease in miscellaneous costs. These favorable variations were partially offset by $9 million of pension settlement charges, a $2 million increase in selling and administrative expenses and an $8 million gain in the prior year from the sale of surplus assets.

New housing construction increased in 2013, resulting in increased demand for gypsum wallboard, as discussed above. U.S. Gypsum shipped 5.14 billion square feet of USG Sheetrock® brand gypsum wallboard in 2013, a 9% increase from 4.72 billion square feet in 2012. During 2013, USG Sheetrock® Brand UltraLight Panels accounted for 55% of all of our wallboard shipments in the United States. We estimate that industry capacity utilization rates averaged approximately 64% during 2013, while U.S. Gypsum's capacity utilization rate averaged 55%.

Manufacturing costs per unit increased 1% for USG Sheetrock® brand gypsum wallboard in 2013 compared with 2012, due primarily to per unit cost increases of 4% for conversion costs and 2% for raw materials, primarily due to gypsum and starch. These per unit cost increases were mostly offset by a per unit cost decrease of 3% for fixed costs, reflecting the favorable impact from higher volumes, and a per unit cost decrease of 1% for energy.

CANADA (GYPSUM)

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 US 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.
Net sales in 2013 were $348 million, up $12 million compared to 2012, primarily driven by $19 million of higher net sales for SHEETROCK® brand gypsum wallboard due to a 12% increase in average realized selling prices partially offset by a

Table of Contents

2% decrease in volume. Net sales of joint treatment increased by $2 million and net sales of other non-wallboard products increased by $2 million. These increases in net sales were partially offset by the unfavorable impact of currency translation of $10 million and a decrease of $1 million in outbound freight.

Operating profit was $17 million in 2013 compared with $12 million in 2012. This $5 million increase in operating profit was primarily driven by $11 million of higher gross profit for gypsum wallboard, primarily due to the increase in average realized selling prices, partially offset by an increase in per unit manufacturing costs, and a $3 million increase in gross profit for joint treatment products. These improvements were partially offset by a decrease of $2 million in gross profit for non-wallboard products, an increase of $6 million in miscellaneous costs and an increase of $1 million in cash discounts.

MEXICO / LATIN AMERICA (GYPSUM)

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 US 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.

Comparing 2013 with 2012, net sales increased $14 million which included $2 million for joint treatment products, $6 million for framing products, and $3 million of other products offset by decreased sales of $2 million for gypsum wallboard, reflecting lower volume, partially offset by an increase in selling prices. Also increasing sales is a $4 million favorable impact of currency translation.

Operating profit for Mexico and Latin America was $21 million in 2013 compared with $19 million in 2012 reflecting a $2 million increase in operating profit for drywall steel, a $2 million increase in operating profit for other nonwallboard products and the favorable impact from currency translation of $1 million. These increases were partially offset by a decrease in operating profit of $1 million for cement board, an increase of $1 million in miscellaneous costs and an increase of $1 million in selling and administrative expenses.

OTHER

Other includes our shipping company (GTL) and our mining operation in Little Narrows, Nova Scotia, Canada. Net sales for these operations were $86 million in 2014 as compared to $89 million in 2013. The decrease of $3 million reflects a cancellation of a contract of affreightment by our shipping company in the fourth quarter due to its key trading partner ceasing operations. Operating profit decreased $65 million from operating income of $10 million in 2013 to an operating loss of $55 million in 2014. The decrease reflects a long-lived asset impairment charge of $60 million on two shipping vessels owned by GTL and a $15 million charge for contract costs related to a lease of an ocean vessel that will continue 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 This is offset by higher gross profit and lower selling and administrative expenses.

Net sales increased to $89 million in 2013 from $63 million in 2012. The increase is primarily attributable to an increase in volumes shipped by our shipping company. Operating profit of $10 million was recognized in 2013 compared with an operating loss of $5 million for 2012. The increase in operating profit in 2013 compared to 2012 was driven by the favorable impact of $7 million of higher operating profit from our shipping company, due to increased shipments, and $8 million of higher operating profit primarily due to long-lived asset impairment charges in 2012 related to our closed gypsum quarry and ship loading facility in Windsor, Nova Scotia, Canada.

Table of Contents

CEILINGS

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

				2014 vs. 2013 Favorable (Unfavorable)		2013 vs. 2012 Favorable (Unfavorable)	
(millions)	2014	2013(b)	2012(c)(d)	$	%	$	%
Net Sales:							
United States	$464	$471	$460	$(7)	(1)%	$11	2%
USG International (a)	7	51	43	(44)	(86		