

USG CORP  
Form 10-K  
February 14, 2018

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

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-8864

USG CORPORATION

(Exact name of Registrant as Specified in its Charter)

Delaware 36-3329400  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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

Edgar Filing: USG CORP - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock held by non-affiliates computed by reference to the New York Stock Exchange closing price on June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$2,461,833,172. 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, 2018 was 141,056,498.

Documents Incorporated By Reference: Certain sections of USG Corporation's definitive Proxy Statement for use in connection with its 2018 annual meeting of stockholders, to be filed subsequently, are incorporated by reference into Part III of this Form 10-K Report where indicated.

---

Table of Contents

## TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	<u>1</u>
Item 1A. <u>Risk Factors</u>	<u>8</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>15</u>
Item 2. <u>Properties</u>	<u>16</u>
Item 3. <u>Legal Proceedings</u>	<u>17</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>17</u>
<u>PART II</u>	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>18</u>
Item 6. <u>Selected Financial Data</u>	<u>20</u>
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>41</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>42</u>
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>85</u>
Item 9A. <u>Controls and Procedures</u>	<u>85</u>
Item 9B. <u>Other Information</u>	<u>86</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>87</u>
Item 11. <u>Executive Compensation</u>	<u>88</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>89</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>89</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>89</u>
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>90</u>
Item 16. <u>Form 10-K Summary</u>	<u>90</u>
<u>Signatures</u>	<u>96</u>

---

Table of Contents

PART I

Item 1. BUSINESS

In this annual report on Form 10-K, “USG,” “we,” “our” and “us” refer to USG Corporation, a Delaware corporation, and its subsidiaries included in the consolidated financial statements, except as otherwise indicated or as the context otherwise requires.

General

USG, through our subsidiaries and joint ventures, is a leading manufacturer of building materials and innovative solutions that was originally formed in 1902. 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. Our expansion through two 50/50 joint ventures we formed in 2014 with Boral Limited, referred to as USG Boral Building Products, or UBBP, into the markets of Asia, Australasia, and the Middle East has significantly increased our exposure to the economic conditions in those areas.

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

Segments

During the fourth quarter of 2017, we realigned our operating structure to reflect changes in our organizational structure and management's operation and view of our businesses. Our realigned operating structure is generally aligned by product type and consists of three divisions, in addition to UBBP: Gypsum, Performance Materials and Ceilings. The operations of the divisions are similar throughout North America.

As a result of our realigned operating structure, we changed the composition of our reportable segments effective for the quarter ended December 31, 2017 to align with how we manage our businesses, review operating performance and allocate resources considering the discrete information available for the geographies within those divisions. We now have five reportable segments: U.S. Wallboard and Surfaces, U.S. Performance Materials, U.S. Ceilings, Canada, and UBBP. Our prior period results have been recast to reflect these changes and present comparative year over year information by segment. See Note 14, Segments, to the consolidated financial statements in Part II, Item 8 of this report for financial information regarding our reportable segments.

Our reportable segments are determined considering both qualitative and quantitative metrics for aggregation of the product type within geographies for which discrete financial information is available. Our U.S. Wallboard and Surfaces, U.S. Performance Materials and U.S. Ceilings reportable segments were identified based on products manufactured and marketed as discussed below. Our Canada segment is a separately reportable segment, as while it has similar qualitative factors to U.S. operations, it has different quantitative metrics and, therefore, cannot be aggregated. Our operating segments in Mexico and Latin America, as well as our mining operation in Little Narrows, Nova Scotia, Canada, which we indefinitely idled in 2016, and our shipping company, which we exited in 2015, are now included in Other as reconciling items to our consolidated segments. There has been no change to our UBBP segment.

Table of Contents

The following graph reflects the breakdown by segment of our 2017 consolidated net sales of \$3.2 billion. Net sales of UBBP of \$1.2 billion are excluded from the graph above as the joint ventures are accounted for as equity method investments.

Gypsum

**BUSINESS**

Our Gypsum division manufactures and markets gypsum and related products in the United States, Canada and Mexico. It is composed of our U.S. Wallboard and Surfaces segment and the Gypsum operations of our Canada segment. Our Gypsum operations in Mexico do not rise to the level of a reportable segment and thus are included in Other. We are the largest manufacturer of gypsum wallboard in the United States and accounted for approximately 25.4% of total industry shipments of gypsum board in 2017. The gypsum board market, as determined by the Gypsum Association, includes gypsum wallboard, other gypsum-related paneling products and imports. As such, we've included the Gypsum products of USG Sheetrock® brand gypsum wallboard and Securock® brand glass mat sheathing and the Performance Materials product of Fiberock® brand gypsum fiber panels in our estimate of our market share of the gypsum board market. In Canada, we accounted for approximately 42% of Canadian domestic shipments of gypsum wallboard in 2017 and are the largest manufacturer of gypsum wallboard in Canada.

**PRODUCTS**

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

**WALLBOARD**

USG Sheetrock® brand gypsum wallboard and Securock® brand glass mat sheathing portfolios

Gypsum panels that provide aesthetic as well as sound-dampening, fire-retarding, abuse-resistance and moisture-control value

**SURFACES**

USG Sheetrock® brand joint compound portfolio, as well as corner bead, joint tape, and plaster Construction plaster products, sold under the brand names Red Top®, Imperial®, Diamond® and Supremo™ and industrial gypsum

Used for finishing wallboard joints

Used to provide a custom finish for residential and commercial interiors and provide aesthetic, sound-dampening, fire-retarding and abuse-resistance value

As the leader in lightweight innovation, we offer the industry's broadest portfolio of lightweight gypsum panels for use in interior wall and ceiling applications including our USG Sheetrock® Brand UltraLight Panels and our newly launched USG Sheetrock® Brand EcoSmart Panels.

Table of Contents**MANUFACTURING**

Our Gypsum division manufactures products at 41 plants located throughout the United States, Canada, and Mexico, some of which are shared with the Performance Materials division.

Gypsum rock is mined or quarried at 12 company-owned locations in North America. Our mines and quarries provided approximately 50% of the gypsum used by our plants in North America in 2017. Some of our manufacturing plants purchase or acquire synthetic gypsum and natural gypsum rock from outside sources. In 2017, outside sources of synthetic gypsum and natural gypsum rock accounted for approximately 43% and 7%, respectively, of the gypsum used in our North American 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. Certain power companies have 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 which could result in an increase to our cost. See Item 1A, Risk Factors.

We produce wallboard paper at four company-owned production facilities located in the United States. Vertical integration in paper helps to ensure a continuous supply of high-quality paper that is tailored to the specific needs of our production processes. We augment our paper needs through purchases from outside suppliers when necessary. We did not make any material purchases of paper from outside suppliers in 2017.

**MARKETING AND DISTRIBUTION**

Our Gypsum products are marketed and distributed through 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 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 2017 volume demand for gypsum board was generated by:

- residential and nonresidential repair and remodel activity of about 51%,
- new residential construction of about 39%,
- new nonresidential construction of about 7%, and
- other activities, such as exports and temporary construction, of about 3%.

**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 25.7 billion square feet in 2017, up approximately 3% from 25.0 billion square feet in 2016. Our share of the gypsum board market in the United States, which includes for comparability shipments of USG Sheetrock® brand gypsum wallboard, Fiberock® brand gypsum fiber panels and Securock® brand glass mat sheathing, increased to 25.4% in 2017 from 24.6% in 2016.

The principal methods of competition are quality and range of products, including introduction of new products, product availability, pricing, compatibility of systems and product design features. Our principal competitors include

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



Table of Contents

Performance Materials

**BUSINESS**

Our Performance Materials division manufactures and markets a series of innovative products in the United States that provide solutions to our customers to help close the skilled labor gap and increase job site efficiency. It consists solely of our U.S. Performance Materials segment.

**PRODUCTS**

Performance Materials products are used in a variety of interior and exterior building applications of residential and nonresidential buildings, as well as in certain industrial applications. These products can be grouped under three product categories of underlayment, building envelope and structural. The major products within these three categories are as follows:

**UNDERLAYMENT**

USG Durock® brand cement board	Provides water and fire-resistant assemblies for both interior and exterior applications
Fiberock® brand backerboard	Includes abuse-resistant interior wall panels, tile backer boards, and flooring underlayments
USG Durock™ brand shower systems	A fully bonded waterproofing system for tiled shower installations
Levelrock® brand systems of poured gypsum flooring	Provides surface leveling, enhanced sound-dampening and fire-resistant performance for residential and commercial flooring applications

**BUILDING ENVELOPE**

Securock® ExoAir® 430 air barrier system	Integrated gypsum sheathing panels with pre-applied fluid air barrier membrane that provides structural performance and moisture, mold and air control
Securock® brand roof board portfolios	Roof boards for use in low-slope commercial roofing systems that provides moisture, mold and fire resistant value

**STRUCTURAL**

USG Structural Panels	High-strength, reinforced factory made concrete panels for use in subfloor, roof deck, foundation walls and other noncombustible applications
-----------------------	---

**MANUFACTURING**

Our Performance Materials division manufactures products at 11 plants located throughout the United States, most of which are shared with our Gypsum division.

**MARKETING AND DISTRIBUTION**

Our Performance Materials products are marketed and distributed through specialty distributors, home improvement centers, contractors and other retailers. Sales of Performance Materials products are generally greater from spring through autumn than during the remaining part of the year. Based on our estimates using internal surveys, we estimate that during 2017 volume demand was generated by:

- new nonresidential construction of about 35%
- new residential construction of about 35%, and
- residential and nonresidential repair and remodel activity of about 30%.

**COMPETITION**

The principal methods of competition are quality and range of products, including introduction of new products, product availability, pricing, compatibility of systems and product design features. Our principal competitors include National Gypsum Company, Georgia Pacific, James Hardie Building Products, Schluter Systems, the ARDEX Group and Laticrete.

Ceilings

**BUSINESS**

Our Ceilings division manufactures and markets ceiling interior systems products in the United States, Canada and Mexico. It consists of our U.S. Ceilings segment and the ceilings operations of our Canada segment. Our ceilings



operations in Mexico do not rise to the level of a reportable segment and thus are included in Other. We are a leading manufacturer and supplier of interior ceilings products including ceiling tile, ceiling grid, and specialty ceilings used primarily in nonresidential applications.

4

---

Table of Contents

In 2017, we acquired Ceilings Plus, a leader in the specialty ceilings market. We estimate that we are the second-largest manufacturer of ceiling grid and acoustical ceiling tile.

PRODUCTS

The major product lines within the Ceilings division are:

CEILING TILE

Radar™, Eclipse™, Mars™ and Halcyon™ 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

CEILING GRID

Donn®, DX®, Finline®, Centricitee™ and Identitee® DXI™ Provides qualities such as fire retardation and convenient access to the space above the ceiling for electrical and mechanical systems, air distribution and maintenance

SPECIALTY CEILINGS

Curvatura™, Compasso® Radians®, Illusions™, Multiples™, Runways™, Barz™, Planx™, Mirra™, Corniche™, Wallforms™ and Parti™ Provides qualities such as aesthetics, sound absorption, fire retardation and convenient access to the space above the ceiling for electrical and mechanical systems, air distribution and maintenance

ENSEMBLE™

Ensemble™ Provides a monolithic drywall look with acoustical performance

MANUFACTURING

Our Ceilings division manufactures products at 10 plants located in the United States and Canada. Principal raw materials used to produce Ceilings' products include mineral fiber, aluminum, steel, perlite and starch. We produce mineral fiber and obtain all others from outside suppliers.

MARKETING AND DISTRIBUTION

Ceilings sells products primarily in markets related to the construction and renovation of nonresidential buildings.

During 2017, based on our estimates using internal surveys, approximately:

75% of its net sales were from repair and remodel activity, primarily nonresidential,

20% of its net sales were from new nonresidential construction, and

5% of its net sales were from new residential construction.

Products are marketed and distributed through a network of distributors, installation contractors and home improvement centers. Sales of Ceilings' products are seasonal in nature and are generally lower in the fourth quarter of the calendar year as compared to the first three quarters of the year.

COMPETITION

Principal methods of competition are quality and range of products, including introduction of new products, product availability, pricing, compatibility of systems and product design features. Our principal competitors include the following:

	United States	Canada	Mexico
Ceiling Tile			
Armstrong World Industries, Inc.,	x	x	x
Rockfon (a subsidiary of Rockwool International A/S)	x	x	
CertainTeed Corporation (a subsidiary of Compagnie de Saint-Gobain SA)	x	x	x
Odenwald Faserplattenwerk GmbH (OWA)	x	x	x
	&#		