

USG CORP  
Form DEF 14A  
March 31, 2016  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No.     )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**USG CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  
  - (2) Aggregate number of securities to which transaction applies:
  
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  
  - (4) Proposed maximum aggregate value of transaction:
  
  - (5) Total fee paid:
  
- Fee paid previously with preliminary materials.
  
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid:
  
  - (2) Form, Schedule or Registration Statement No.:
  
  - (3) Filing Party:
  
  - (4) Date Filed:

**Table of Contents**

Table of Contents

**USG Corporation**

550 West Adams Street

Chicago, Illinois 60661

Founded in 1902

March 31, 2016

Dear Fellow Stockholder:

It is a pleasure to invite you to the 2016 USG Corporation annual meeting of stockholders. The meeting will be held at 9:00 a.m., Chicago time, on Wednesday, May 11, 2016 at our corporate headquarters located at 550 West Adams Street, Chicago, Illinois 60661-3676. The attached Notice of Annual Meeting of Stockholders and Proxy Statement discuss the items scheduled for a vote by stockholders at the meeting.

Securities and Exchange Commission rules allow companies to furnish proxy materials to their stockholders over the Internet. As a result, most of our stockholders will receive in the mail a notice regarding availability of the proxy materials for the annual meeting on the Internet instead of paper copies of those materials. The notice regarding availability of proxy materials contains instructions on how to access the proxy materials over the Internet. The notice also contains instructions on how stockholders can receive paper copies of the proxy materials, including a proxy or voting instruction form. This process expedites stockholders receipt of proxy materials, lowers the cost of our annual meeting and helps to conserve natural resources.

It is important that your shares be represented at the annual meeting, whether or not you plan to attend the meeting. Please vote your shares over the Internet or by telephone. If you received paper copies of the proxy materials by mail, you may also vote by mail by following the instructions on the proxy or voting instruction form you received. **Brokers may not vote your shares on the election of directors, the approval of the USG Corporation 2016 Long-Term Incentive Plan, the approval of the amendments to our Restated Certificate of Incorporation or the ratification, by advisory vote, of an amendment to our Rights Agreement, in the absence of specific voting instructions from you.**

**Please vote your shares as soon as possible. This is your annual meeting, and your participation is important.**

Sincerely,

James S. Metcalf

*Chairman of the Board, President*

*and Chief Executive Officer*

**Table of Contents**

**550 West Adams Street**  
**Chicago, Illinois 60661-3676**

**NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS**

The 2016 USG Corporation annual meeting of stockholders will be held at our corporate headquarters located at 550 West Adams Street, Chicago, Illinois 60661-3676 on Wednesday, May 11, 2016 at 9:00 a.m., Chicago time, for the following purposes:

1. to elect three directors for a three-year term;
2. to approve the USG Corporation 2016 Long-Term Incentive Plan;
3. to ratify the Audit Committee's appointment of Deloitte & Touche LLP as our independent registered public accountants for the fiscal year ending December 31, 2016;
4. to approve an amendment to our Restated Certificate of Incorporation, or the Committee Amendment, to remove the requirement that we maintain a Finance Committee, in order to make our governance structure more efficient;
5. to approve an amendment to our Restated Certificate of Incorporation, or the Extended Protective Amendment, to continue to restrict certain transfers of our common stock until May 31, 2019, in order to protect the tax benefits of our net operating loss carryforwards;
6. to ratify, by advisory vote, an amendment to our Rights Agreement, or the Rights Agreement Amendment, to continue to restrict certain transfers of our common stock until May 31, 2019, in order to protect the tax benefits of our net operating loss carryforwards; and
7. to transact any other business that may properly come before the meeting or any adjournment or postponement thereof.

Pursuant to our By-laws, any matter to be presented for consideration at the meeting must have satisfied the procedural and legal requirements referred to in the accompanying proxy statement.

Only stockholders of record at the close of business on March 14, 2016 will be entitled to vote at the annual meeting.

An admission ticket (or other proof of stock ownership) and a form of photo identification will be required for admission to the annual meeting. If your shares are registered in your name and you received your proxy materials by mail, please mark the space on your proxy form if you plan to attend the annual meeting. An admission ticket is attached to your proxy form. If your shares are registered in your name and you received or accessed your proxy materials electronically over the Internet, click the appropriate box on the electronic proxy form or follow the telephone instructions when prompted and an admission ticket will be held for you at the registration desk at the annual meeting. If you hold shares through a broker, bank or other nominee, you will be required to present a statement from that institution reflecting your ownership of shares of our stock as of the record date, the notice regarding the availability of proxy materials you received or the non-voting portion of the voting instruction form you received.

By order of the Board of Directors,

MICHELLE M. WARNER

*Senior Vice President, General Counsel*

*and Corporate Secretary*

March 31, 2016

### **YOUR VOTE IS IMPORTANT**

*Brokers may not vote your shares on the election of directors, approval of the USG Corporation 2016 Long-Term Incentive Plan, approval of the Committee Amendment or the Extended Protective Amendment or the ratification, by advisory vote, of the Rights Agreement Amendment in the absence of specific voting instructions from you. Please vote your shares promptly by using the Internet or the telephone. If you received a paper copy of a proxy or voting instruction form for the annual meeting by mail, you may submit that form by completing, signing, dating and returning it in the pre-addressed envelope provided.*

**Table of Contents****TABLE OF CONTENTS**

<b><u>Summary of 2016 Proxy Statement</u></b>	<b>1</b>
<b><u>Question and Answers about the Annual Meeting and Voting</u></b>	<b>5</b>
<u>General</u>	5
<u>The 2016 USG Corporation Long-Term Incentive Plan</u>	10
<u>The Committee Amendment</u>	11
<u>Section 382 and NOLs Generally</u>	12
<u>The Extended Protective Amendment</u>	13
<u>The Rights Agreement Amendment</u>	15
<b><u>Proposal 1 Election of Directors</u></b>	<b>17</b>
<u>Director Nominees and Directors Continuing in Office</u>	17
<u>Director Independence</u>	21
<b><u>Board of Directors and Corporate Governance</u></b>	<b>22</b>
<u>Meetings of the Board of Directors</u>	22
<u>Board Leadership</u>	22
<u>Committees of the Board of Directors</u>	23
<u>Stockholder Nominee Recommendations and Criteria for Board Membership</u>	26
<u>Communications with Directors</u>	27
<u>Risk Oversight</u>	27
<u>Corporate Governance</u>	28
<b><u>Securities Ownership</u></b>	<b>29</b>
<u>Directors and Executive Officers</u>	29
<u>Principal Stockholders</u>	30
<b><u>Certain Relationships and Related Transactions</u></b>	<b>31</b>
<u>Policies and Procedures Regarding Related Party Transactions</u>	31
<u>Issuance, and Call for Redemption, of Convertible Senior Notes</u>	33
<u>Shareholder s Agreement with Berkshire Hathaway</u>	34
<u>Transactions with Principal Stockholders</u>	35
<b><u>Compensation of Executive Officers and Directors</u></b>	<b>36</b>

<u>Compensation Discussion and Analysis</u>	36
<u>Compensation and Organization Committee Report</u>	58
<u>Compensation Tables</u>	59

**Table of Contents**

<b><u>Proposal 2 Approval of USG Corporation 2016 Long-Term Incentive Plan</u></b>	<b>79</b>
<u>Why We Believe You Should Vote for Proposal 2</u>	79
<u>Section 162(m)</u>	81
<u>New LTIP Highlights</u>	83
<u>Summary of the New LTIP</u>	84
<u>Federal Income Tax Consequences</u>	95
<u>Registration with the SEC</u>	97
<u>New LTIP Benefits</u>	97
<u>Equity Compensation Plan Information</u>	98
<b><u>Proposal 3 Ratification of Appointment of Independent Registered Public Accountants</u></b>	<b>99</b>
<u>Independent Registered Public Accounting Firm Fees and Services</u>	99
<u>Audit Committee Report</u>	100
<b><u>Proposal 4 Approval of Committee Amendment</u></b>	<b>101</b>
<u>Background and Purpose of the Committee Amendment</u>	101
<u>Description of the Committee Amendment</u>	102
<u>Required Vote</u>	102
<b><u>Background to Proposals 5 and 6</u></b>	<b>103</b>
<b><u>Proposal 5 Approval of Extended Protective Amendment</u></b>	<b>105</b>
<u>Description of the Extended Protective Amendment</u>	105
<u>Section 382 Ownership Change Determinations</u>	110
<u>Required Vote</u>	110
<b><u>Proposal 6 Ratification of Rights Agreement Amendment</u></b>	<b>111</b>
<u>Background of the Rights Agreement</u>	111
<u>Purpose of the Rights Agreement Amendment</u>	111
<u>Description of the Rights Agreement Amendment</u>	112
<u>Required Advisory Vote</u>	115
<b><u>Certain Considerations Related to the Extended Protective Amendment and the Rights Agreement Amendment</u></b>	<b>116</b>
<b><u>Other Information</u></b>	<b>118</b>
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	118
<u>Involvement in Certain Legal Proceedings</u>	118
<u>Additional Information</u>	118
<u>Deadline for Stockholder Proposals</u>	119

**Table of Contents**

<b><u>Annex A</u></b>	<b><u>USG Corporation 2016 Long-Term Incentive Plan</u></b>	<b>A-1</b>
<b><u>Annex B</u></b>	<b><u>Audit Committee Pre-Approval Policy</u></b>	<b>B-1</b>
<b><u>Annex C</u></b>	<b><u>Proposed Committee Amendment</u></b>	<b>C-1</b>
<b><u>Annex D</u></b>	<b><u>Proposed Extended Protective Amendment</u></b>	<b>D-1</b>
<b><u>Annex E</u></b>	<b><u>Amendment No. 4 to Rights Agreement</u></b>	<b>E-1</b>

**Table of Contents****SUMMARY OF 2016 PROXY STATEMENT****Annual Meeting Information**

<b>Time and Date</b>	9:00 a.m., Chicago time, on Wednesday, May 11, 2016
<b>Location</b>	USG Corporation Headquarters 550 West Adams Street Chicago, Illinois 60661-3676
<b>Record Date</b>	March 14, 2016
<b>Voting</b>	Stockholders as of the close of business on the record date are entitled to vote. Each share of common stock is entitled to one vote for each matter presented at the annual meeting.
<b>Attendance</b>	An admission ticket (or other proof of stock ownership) and a form of photo identification will be required for admission to the annual meeting. If you hold shares through a broker, bank or other nominee, you will be required to present a statement from that institution reflecting your ownership of shares of our stock as of the record date, the notice regarding the availability of proxy materials you received or the non-voting portion of the voting instruction form you received.

**Agenda and Voting Recommendations**

<b>Proposal</b>	<b>Board Recommendation</b>	<b>Page</b>
Election of Three Directors	FOR each nominee	17
Approval of the USG Corporation 2016 Long-Term Incentive Plan	FOR	79
Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accountants for 2016	FOR	99
Approval of the Committee Amendment of our Restated Certificate of Incorporation	FOR	101
Approval of the Extended Protective Amendment of our Restated Certificate of Incorporation	FOR	105
Ratification, by advisory vote, of the Rights Agreement Amendment	FOR	111

**Table of Contents**

**Business Highlights**

Our strategy, called the Plan to Win, has three pillars: Strengthening Our Core Businesses, Diversifying Our Earnings, and Differentiating Our Products and Services Through Innovation. In 2015, we continued to make progress on all three strategic priorities of our Plan to Win. The annual highlights include:

<p><b>Strengthening Our Core Businesses</b></p>	<p>Total operating profit of \$381 million, more than double 2014</p> <p>Expanded operating margins in all of our core businesses</p> <p>Strong cost performance with SG&amp;A below 2014 and 2013 levels</p> <p>L&amp;W same store sales were up 6% and operating profit was up 69% year-on-year</p>
<p><b>Diversifying Our Earnings</b></p>	<p>We completed our first full calendar year with USG Boral Building Products, or UBBP, our 50/50 strategic joint ventures with Boral Limited, which generated \$48 million in equity method income for us in 2015</p>
<p><b>Differentiating Our Products and Services Through Innovation</b></p>	<p>Introduction of over 25 new products, including four high-performance ceilings products and our structural panel line, which is seeing record sales and profits</p>

Our improved operational results in 2015 reflect management's continued focus on growing our businesses, increasing operating margins and controlling costs. The cost reductions we have implemented over the last several years

contributed to our improved operating results. We also continue to focus on operational excellence with near-record performance in safety, quality, customer satisfaction and operating efficiency.

2 **USG Corporation** 2016 Proxy Statement

**Table of Contents**

**Executive Compensation Highlights**

Our executive compensation program is designed to attract, motivate, engage and retain talented executives and align their interests with those of stockholders. We use a combination of base salary, annual and long-term incentive awards, retirement and other benefits and limited perquisites to link executive pay with our financial and operating objectives. Our compensation program for executive officers, including our named executive officers, drives

the achievement of our Plan to Win. The program places the greatest emphasis on performance-based incentives. Nearly 86% of our Chairman, President and CEO's target total 2015 pay mix, and more than 72% of the average target total 2015 pay mix of our other named executive officers, excluding any one-time special grants, was at risk, and more than half is in stock-based compensation to create alignment with stockholders.

**Chairman, President & CEO 2015 Target Pay Mix**

**Other NEO Average 2015 Target Pay Mix <sup>(1)</sup>**

(1) Excluding any one-time special grants.

**Table of Contents**

**Governance Highlights**

The Company is committed to good corporate governance, which promotes the long-term interests of stockholders, strengthens Board and management accountability and helps build public trust.

<p><b>Independence</b></p>	<p>Eight of our nine directors are independent</p> <p>Our CEO is the only management director</p> <p>All of our Board committees are comprised of only independent directors</p>
<p><b>Lead Director</b></p>	<p>An independent Lead Director is designated annually</p> <p>The Lead Director serves as a liaison between our CEO and the independent directors</p>
<p><b>Executive Sessions</b></p>	<p>The independent directors regularly meet in executive sessions</p> <p>The Lead Director generally presides at executive sessions of the independent directors</p>
<p><b>Board Oversight of Risk Management</b></p>	<p>Our Audit Committee annually reviews our guidelines and policies that govern the process by which we assess and manage our exposure to risk</p> <p>Our Compensation and Organization Committee reviews the annual compensation risk assessment and retains an independent compensation consultant</p> <p>We have recoupment or clawback provisions to recover certain executive pay</p> <p>We have a prohibition on hedging and speculative transactions involving our securities</p>

**Stock Ownership Requirements**

Our non-employee directors must hold at least three times the sum of the annual cash retainer and annual equity grant, or 15,000 shares and deferred stock units, whichever is less, within five years of joining the Board

Our CEO must hold our common stock equal to the lesser of 100,000 shares or five times his base salary within five years of attaining the position

Our other executive officers are also subject to minimum stock ownership guidelines

**Table of Contents**

USG Corporation

550 West Adams Street

Chicago, Illinois 60661-3676

**PROXY STATEMENT**

The accompanying proxy is solicited on behalf of our Board of Directors, or the Board, for use at our annual meeting of stockholders to be held on Wednesday, May 11, 2016 in accordance with the accompanying notice. This proxy statement and the accompanying proxy were first made available to our stockholders on or about March 31, 2016.

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING**

**General**

**What is a proxy statement?**

A proxy statement provides you with information related to the matters upon which you are asked to vote as a stockholder to assist you in voting your shares. We are required to make this proxy

statement available to you under rules of the Securities and Exchange Commission in connection with our solicitation of your proxy.

**Why did I receive a notice in the mail regarding the Internet availability of the proxy statement and related proxy materials instead of a paper copy of the proxy materials?**

Securities and Exchange Commission rules allow companies to furnish proxy materials to their stockholders over the Internet. As a result, most of our stockholders are receiving in the mail a notice regarding the availability of proxy materials on the Internet instead of paper copies of the notice of annual meeting and proxy statement, our 2015 annual report on Form 10-K and a letter from our Chairman, President and Chief Executive Officer. All stockholders

receiving the notice will be able to access the

notice of annual meeting, proxy statement, annual report and letter over the Internet and to request paper copies of those documents by mail. Instructions on how to access those documents over the Internet or to request paper copies of them may be found in the notice. In addition, the notice contains instructions on how you may request to receive proxy materials in printed form by mail or through e-mail access on an ongoing basis.

**Why did I not receive a notice in the mail about the Internet availability of the proxy statement and related proxy materials?**

Stockholders who have previously requested to receive proxy materials in paper form or through e-mail access are being provided copies of the proxy materials in the format previously requested instead of receiving the notice

regarding Internet availability of the proxy materials. In addition, stockholders who hold USG Corporation, or USG, shares in their USG Corporation Investment Plan, or the Investment Plan, may receive materials by either e-mail or in paper.

**Table of Contents**

**How may I obtain a paper copy of the proxy statement and proxy materials?**

Stockholders receiving a notice regarding the Internet availability of the proxy materials will find instructions about how to obtain a paper copy of the proxy materials in the notice. Stockholders receiving e-mail notification of the availability of the proxy materials will find

instructions about how to obtain a paper copy of the proxy materials in that e-mail. Stockholders who do not receive a notice or an e-mail will receive a paper copy of the proxy materials by mail.

**Who is entitled to vote at the annual meeting?**

All record holders of our common stock at the close of business on our record date of March 14, 2016 are entitled to vote their shares at the annual meeting. On that date, there were 145,846,581 shares of our common stock issued and outstanding and entitled to vote. Each share

is entitled to one vote on each matter presented at the annual meeting. The shares of common stock are our only securities entitled to vote at the annual meeting.

**How do I vote?**

We have both stockholders of record, or registered stockholders, and street name stockholders. If your shares are registered in your name with Computershare Trust Company N.A., our transfer agent, you are a stockholder of record or registered stockholder. You are a stockholder of record, for example, if you hold a certificate for your shares. If your shares are held in the name of a broker, bank or other nominee, you are a street name holder.

Whether you hold shares directly as a stockholder of record or as a street name holder, you may direct how your shares are voted by proxy without attending the annual meeting. There are three ways to vote by proxy:

*By Internet* You can vote over the Internet at [www.proxyvote.com](http://www.proxyvote.com) by following the instructions on the notice regarding Internet availability of proxy materials or the proxy or voting instruction form you received;

*By telephone* You can vote by telephone by calling 1-800-690-6903 and following the instructions on the notice regarding Internet availability of proxy materials or the proxy or voting instruction form you received; or

*By mail* If you received your proxy materials by mail, you can vote by mail by signing, dating and mailing the enclosed proxy or voting instruction form.

If you are a street name holder and you wish to vote your shares in person at the annual meeting, you must obtain a proxy from your broker, bank or other nominee giving you the right to vote your shares at the meeting.

Fidelity Management Trust Company, as trustee of the Investment Plan, or the Trustee, held 369,453 shares of our common stock on the record date. Only the Trustee, as of the record date, can vote the shares held by the Investment Plan. However, the Investment Plan provides that Investment Plan participants are entitled to instruct the Trustee how the shares allocated to their accounts under the Investment Plan are to be voted. The Investment Plan also provides that unallocated shares and shares for which no instructions are received by the Trustee will be voted by the Trustee in the same proportion as those shares for which instructions are received, unless otherwise required by law. Thus, Investment Plan participants will be exercising power and control as a named fiduciary of the Investment Plan not only over the shares allocated to their own accounts, but also over a

## **Table of Contents**

portion of the undirected shares. By submitting voting instructions over the Internet, by telephone or by signing and returning the proxy voting form accompanying this proxy statement, an Investment Plan participant will be directing the Trustee to vote the shares allocated to his or her account under the Investment Plan, in person or by proxy, as instructed, at the annual meeting of stockholders. Investment Plan participants may revoke previously submitted voting instructions by phone, Internet or filing with Broadridge Financial Solutions, 51 Mercedes Way, Edgewood, New York 11717, the Investment Plan proxy tabulator, either a written notice of revocation or a properly completed and signed proxy form bearing a later date.

If you own shares through the Investment Plan and you are also a stockholder of record, your proxy form will allow you to designate the

manner in which you want both the shares registered in your name and the shares in the Investment Plan voted at the annual meeting. If you hold shares through the Investment Plan, but you do not own any shares of our common stock as a stockholder of record, you will be able to designate the manner in which you want those shares voted at the annual meeting by voting as described above.

Unless you hold your shares through the Investment Plan, you may vote via the Internet or by phone until 11:59 p.m. Eastern Time, on May 10, 2016, or the company's agent must receive your paper proxy card on or before May 10, 2016. If you hold any of your shares through the Investment Plan, you may vote via the Internet or by phone until 11:59 p.m., Eastern Time, on May 8, 2016, or the company's agent must receive your paper proxy card on or before May 8, 2016.

### **What does it mean to vote by proxy?**

It means that you give someone else the right to vote your shares in accordance with your instructions. We are asking you to give your proxy to our Chairman and our Corporate Secretary. In this way, you ensure that your vote will be counted even if you are unable to attend the annual meeting.

If you sign and submit your proxy or voting instruction form without giving specific instructions on how to vote your shares, in accordance with the recommendation of the Board, either our Chairman or our Corporate Secretary will vote your shares in the following manner:

**FOR** the election of the Board's nominees for director;

**FOR** the approval of the USG Corporation 2016 Long-Term Incentive Plan;

**FOR** the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accountants for 2016;

**FOR** the approval of the amendment, or the Committee Amendment, of our Restated Certificate of Incorporation, or the Certificate, to remove the requirement that we maintain a Finance Committee, in order to make our governance structure more efficient;

**FOR** the approval of the amendment, or the Extended Protective Amendment, of our Certificate to continue to restrict certain transfers of our common stock until May 31, 2019, in order to protect the tax benefits of our net operating loss carryforwards, or NOLs, within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended, or the Code; and

**FOR** the ratification, by advisory vote, of the amendment, or the Rights Agreement Amendment, of the Rights Agreement, dated as of December 21, 2006, as amended, with Computershare Investor Services, LLC, as Rights Agent, or the Rights Agreement, to continue to restrict certain transfers of our common stock until May 31, 2019, in order to protect the tax benefits of our NOLs.

**Table of Contents**

**What happens if other matters are presented at the annual meeting?**

If other matters are properly presented at the annual meeting, either our Chairman or our Corporate Secretary will have discretion to vote your shares for you on those matters in

accordance with its best judgment if you have granted a proxy. However, we have not received timely notice from any stockholder of any other matter to be presented at the annual meeting.

**What are my choices when voting?**

You may cast your vote in favor of electing one or more of the nominees for director or to withhold authority to vote for one or more of the

nominees. You may cast your vote for or against, or you may abstain from voting your shares on, each other proposal.

**What if I submit a proxy and later change my mind?**

If you have given your proxy and wish to revoke it and change your vote, you may do so by (i) giving written notice to our Corporate Secretary, (ii) voting in person at the annual meeting, (iii) granting a subsequent proxy over

the Internet or by telephone or (iv) if you received your proxy materials by mail, submitting another signed proxy form with a date later than your previously delivered proxy.

**What vote is required to approve each matter?**

Assuming a quorum is present at the annual meeting, each of the matters specified in the notice of the annual meeting, other than approval of the Committee Amendment and the Extended Protective Amendment, requires the affirmative vote of a majority of the shares actually voted at the meeting in person or by proxy. The affirmative vote of 80% of the outstanding shares of our common stock is required for the approval of the Committee Amendment to remove the requirement that we maintain a Finance Committee. The affirmative vote of a majority of the outstanding shares of our common stock is required for the approval of

the Extended Protective Amendment to continue to restrict certain transfers of our common stock in order to protect the tax benefits of our NOLs.

The ratification, on an advisory basis, of the Rights Agreement Amendment to continue to restrict certain transfers of our common stock in order to protect the tax benefits of our NOLs is non-binding. However, our Board will review the results of such vote and will take them into account in determining whether the Rights Agreement Amendment should continue or be rescinded.

### **What constitutes a quorum?**

A quorum is present if a majority of the outstanding shares of our common stock is present or represented by proxy at the annual

meeting. A quorum is required to conduct the annual meeting.

**Table of Contents**

**How are broker non-votes and abstentions treated?**

Broker non-votes occur when nominees, such as brokers and banks, holding shares on behalf of street name owners do not receive voting instructions from those owners regarding a matter and do not have discretionary authority to vote on the matter under the rules of the New York Stock Exchange, or the NYSE. Those rules allow nominees to vote in their discretion on routine matters, such as the ratification of the appointment of our independent registered public accountants, even if they do not receive voting instructions from the street name holder. On non-routine matters, such as the election of directors, the approval of the USG Corporation 2016 Long-Term Incentive Plan, the approval of the Committee Amendment, the approval of the Extended Protective Amendment and the advisory vote on the ratification of the Rights Agreement Amendment, nominees cannot vote unless they receive instructions from the street name owner. The failure to receive such instructions as to a non-routine matter results in a broker non-vote. Broker non-votes are counted for purposes of determining whether a quorum is

present at the annual meeting, but because they are not votes they will not affect the outcome of the vote on any matter presented at the annual meeting other than the approval of the Committee Amendment and the Extended Protective Amendment. Broker non-votes will have the same effect as a vote against the approval of the Committee Amendment and the Extended Protective Amendment.

Abstentions are counted for purposes of determining whether a quorum is present, but they are not treated as votes cast, except with respect to approval of the USG Corporation 2016 Long-Term Incentive Plan, the Committee Amendment and the Extended Protective Amendment. Accordingly, abstentions will have the same effect as a vote against the USG Corporation 2016 Long-Term Incentive Plan, the Committee Amendment and the Extended Protective Amendment, but will have no effect on the other matters presented at the annual meeting.

**What if I receive more than one notice or e-mail regarding the Internet availability of the proxy materials or more than one paper copy of the proxy materials?**

Receiving more than one notice, e-mail or paper copy means your shares are registered in two or more accounts. To vote all of your shares by proxy, please complete, sign, date and return each proxy and voting instruction form that you receive, or vote the shares in each account to

which those forms relate by Internet or telephone, and vote by Internet or telephone the shares in each account for which you receive a notice or e-mail regarding Internet availability of the proxy materials and do not request and receive a proxy or voting instruction form.

**What is Householding ?**

Unless you advised otherwise, if you hold your shares in street name and other residents at your mailing address share the same last name and also own shares of USG common stock in an account at the same broker, bank or other nominee, your nominee delivered a single notice or set of proxy materials to your address. This method of delivery is known as householding. Householding reduces the number of mailings you receive, saves on printing and postage costs and helps the environment. Stockholders

who participate in householding continue to receive separate voting instruction cards and control numbers for voting electronically.

A stockholder who wishes to receive a separate copy of the notice or proxy materials, now or in the future, should submit this request by writing Broadridge Financial Solutions, Inc., Household Department, 51 Mercedes Way, Edgewood, New York, 11717, or calling 1-866-540-7095. Beneficial owners sharing an

**Table of Contents**

address who are receiving multiple copies of the proxy materials and wish to receive a single copy of these materials in the future should contact their broker, bank or other nominee to make this request.

If you are a registered stockholder or hold shares in the Investment Plan, we sent you and each registered Investment Plan holder at your address separate notices or sets of proxy materials.

**Who will count the vote?**

A representative or representatives of Broadridge Financial Solutions, Inc. will count the votes and serve as Inspector of Election.

The Inspector of Election will be present at the annual meeting.

**Who pays the cost of this solicitation?**

USG is paying the cost of this proxy solicitation. Upon request, we will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses they incur in forwarding proxy material to street name holders.

We have retained Alliance Advisors, LLC to aid in soliciting votes for the annual meeting for a fee of approximately \$12,000 plus out-of-pocket expenses.

**What if I have a question regarding my shares or my mailing address?**

If you are a registered stockholder, please contact Computershare Trust Company N.A. directly at 211 Quality Circle, Suite 210, College

Station, Texas 77845. If you are a street name holder, please contact your broker, bank or other nominee directly.

## **The 2016 USG Corporation Long-Term Incentive Plan**

### **What is the purpose of the 2016 USG Corporation Long-Term Incentive Plan?**

We have historically granted equity awards under various incentive compensation plans, including the USG Corporation Long-Term Incentive Plan, or the Current LTIP. The Current LTIP is scheduled to expire on May 10, 2016, after which no further awards may be made under the Current LTIP. If the 2016 USG Corporation Long-Term Incentive Plan, or the New LTIP, is not approved, we will no longer be able to grant any equity awards. In order to provide a competitive compensation opportunity that enables us to attract, retain and motivate talented employees, we may have to significantly increase the salary, annual incentive or other elements of our employee compensation. As a result, our overall compensation program would not align employee interests with the long-term interests of our stockholders as well as the alignment provided by equity-based awards. Replacing equity awards with cash would also increase cash compensation expense and divert

cash away from more impactful uses, such as investments in growing our businesses. Further, we would be at a competitive disadvantage if we could not use equity-based awards to recruit, motivate and retain our officers and certain other employees, as other companies with whom we compete for talent do.

In addition to enabling us to make equity awards in the future, the New LTIP increases the number of shares of our common stock available for issuance as described below and enables the Board, acting through the Compensation and Organization Committee, or the Committee, to design compensation programs that allow us to effectively attract, retain and recruit talented employees, effectively link pay with performance and align the interests of management and our non-employee directors with those of our other stockholders.

**Table of Contents**

**How many shares are available under the New LTIP?**

Subject to adjustment as provided in the New LTIP, total awards that may be granted under the New LTIP are limited to 6.025 million shares minus the number of shares subject to awards granted under the Current LTIP between March 14, 2016 and the effective date of the New LTIP.

The New LTIP also contains a number of limits on the number of common shares that can be issued, including to any one participant in a calendar year.

**What types of awards are authorized under the New LTIP?**

The New LTIP authorizes the Committee to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units,

performance shares, performance units, dividend equivalents, and other stock or stock-based awards and cash incentive awards.

**Who is eligible to receive awards under the New LTIP?**

Officers and other employees of ours and our subsidiaries, or any person who has agreed to commence serving in any of those capacities within 90 days of the date of grant, as well as our directors and persons who provide services to us or one of our subsidiaries that are

equivalent to those typically provided by any employee (provided that such person satisfies the definition of an employee under Form S-8), may be selected by the Committee to receive awards under the New LTIP.

**The Committee Amendment**

**What is the purpose of the Committee Amendment?**

In connection with a restructuring of our debt in 1993, we granted rights to certain of our security holders to nominate members of our Board and the Finance Committee until June 22, 1997. Our Certificate was revised to implement these selection procedures by requiring that we maintain a Finance Committee that, until June 22, 1997, must be comprised of four non-employee directors.

Although the rights of those security holders to appoint directors and members of the Finance Committee expired in 1997, the Finance Committee provision of our Certificate remains

in effect. Further, we are not required by the Securities and Exchange Commission or the NYSE to have a Finance Committee.

If approved, the Board would have the flexibility to eliminate the Finance Committee in the future. Because certain matters currently require the separate review or approval of the Finance Committee in addition to the approval of the Board, elimination of the Finance Committee could simplify our governance structure and provide for a more efficient organizational decision-making process.

**Who would assume the responsibilities of the Finance Committee if it is eliminated?**

If eliminated, many responsibilities of the Finance Committee would be assumed by the full Board, while the remainder would be

assumed by the Audit Committee or another existing committee of the Board.

## **Table of Contents**

### **Section 382 and NOLs Generally**

#### **What is Section 382?**

Section 382 is a provision of the Code that would impose limitations on the future use of our NOLs if we undergo an ownership change as defined in Section 382.

#### **How important are our NOLs?**

As of December 31, 2015 we had approximately \$1.755 billion in pre-tax Federal NOLs. These NOLs, along with our state NOLs, are significant assets that could save up to \$844 million in federal and state taxes over the next 20 years. Because our NOLs expire between now and 2035, we will strive to manage our Section 382 risk for a significant period of time. Because the amount and timing of our future taxable income,

if any, cannot be accurately predicted, we cannot estimate the exact amount of NOLs that we will ultimately use to reduce our future income tax liability. The Board believes that the provisions of the Extended Protective Amendment and the Rights Agreement Amendment are important tools in avoiding adverse impacts from Section 382 limitations.

#### **Why is the Board recommending approval of the Extended Protective Amendment and ratification of the Rights Agreement Amendment?**

On May 9, 2013, our stockholders approved an amendment to the Certificate, or the Original Protective Amendment, and ratified an amendment to our Rights Agreement, or the Original Rights Agreement Amendment, both of which were designed to protect our substantial NOLs. The Original Protective Amendment is scheduled to expire on May 9, 2016, and the Original Rights Agreement Amendment was scheduled to expire on March 22, 2016, in each case subject to other earlier termination events as described in the documents. The Board unanimously approved the Rights Agreement Amendment, which, among other items, extends the termination date of the Rights Agreement to May 31,

2019, and recommended that stockholders approve the Extended Protective Amendment, which proposes to extend the termination date of the Original Protective Amendment to May 31, 2019, in order to continue to protect our NOLs. The Board believes that both the Extended Protective Amendment and the Rights Agreement

Amendment, employed together, provide the most effective protection for our NOLs and, accordingly, recommends that our stockholders approve both. The Extended Protective Amendment provides a mechanism to continue to block an attempted transfer of shares of our common stock that would exceed the defined threshold; however, under the Delaware General Corporation Law, the Extended Protective Amendment may only be enforceable against stockholders with respect to shares that are voted in favor of the Extended Protective Amendment and certain purported transferees of those shares. In contrast, while the Rights Agreement Amendment provides a strong deterrent to acquisitions of our common stock above the threshold specified, it does not include a mechanism to block the acquisition. As a result, the Board is recommending the Extended Protective Amendment to buttress the Rights Agreement Amendment.

**Table of Contents**

**The Extended Protective Amendment**

**What is the purpose of the Extended Protective Amendment?**

The Original Protective Amendment was approved by stockholders at our 2013 annual meeting and is scheduled to expire on May 9, 2016. The purpose of both the Original Protective Amendment and Extended Protective Amendment is to help preserve the long-term value to us of our NOLs by limiting direct or indirect transfers of our common stock that would affect the percentage of stock that is

treated as being owned by 5-percent stockholders within the meaning of Section 382. Changes in ownership of our 5-percent stockholders and the creation of new 5-percent stockholders could result in limitations on our ability to use our NOLs to reduce future income tax liability. If approved, the Extended Protective Amendment would extend these protections until May 31, 2019.

**What transfers will the Extended Protective Amendment prohibit?**

Subject to certain limited exceptions, the Original Protective Amendment restricts any person from transferring our common stock (or any interest in our common stock) if the transfer would result in a stockholder (or several

stockholders, in the aggregate, who hold their stock as a public group under Section 382) owning 4.9% or more of our common stock. The Extended Protective Amendment would extend those transfer restrictions until May 31, 2019.

**Do all investors who file a Schedule 13G or 13D count in the Section 382 ownership change calculation?**

No, some investors who file a Schedule 13G or 13D are not 5-percent stockholders under the Section 382 definition and therefore would not affect our ownership shift for purposes of Section 382. However, for purposes of determining the existence and identity of, and the amount of common stock owned by, any

stockholder, we will be entitled to rely on the existence or absence of filings with the Securities and Exchange Commission of Schedules 13D and 13G (or similar filings) as of any date, subject to our actual knowledge of the ownership of our common stock.

**How does the Extended Protective Amendment affect me if I vote for it and I already own more than 4.9% of the common stock?**

If you already own more than 4.9% of our common stock, you would be able to transfer your shares of common stock if both of the following conditions are met: (i) such transfer does not increase the percentage stock ownership of another holder of 4.9% or more of our common stock or create a new holder of

4.9% or more of our common stock (other than certain transfers that create a new public group) and (ii) the stock that is the subject of the transfer was acquired prior May 9, 2013. Shares acquired in any such transfer will be subject to the transfer restrictions.

**Will the Extended Protective Amendment apply to me if I vote for it and I own less than 4.9% of the Company's common stock?**

Yes, but there will be no restrictions on the sale of our common stock by a stockholder who owns less than 4.9% of our common stock. You will be

able to acquire additional shares of our common stock as long as those acquisitions result in your owning less than 4.9% of our common stock.

**Table of Contents**

**What happens if I vote No on this proposal? Am I still subject to the transfer restriction?**

Delaware law provides that transfer restrictions with respect to shares of our common stock issued prior to the effectiveness of the Extended Protective Amendment generally will be effective against (i) stockholders with respect to shares that were voted in favor of the adoption of the Extended Protective Amendment and (ii) purported transferees of those shares if (A) the transfer restriction is conspicuously noted on the certificate(s) representing those shares or (B) the transferee had actual knowledge of the transfer restrictions (even absent such conspicuous notation). We intend to cause shares of our common stock issued after the effectiveness of the Extended Protective Amendment to be issued with the relevant transfer restriction conspicuously noted on the certificate(s) representing such shares, and therefore under Delaware law any newly issued shares will be subject to the transfer restriction. We also intend to disclose these restrictions to

persons holding our common stock in uncertificated form. For the purpose of determining whether a stockholder is subject to the Extended Protective Amendment, we intend to take the position that all shares issued prior to effectiveness of the Extended Protective Amendment that are proposed to be transferred were voted in favor of the Extended Protective Amendment unless the contrary is established. We may also assert the position that stockholders have waived the right to challenge or are estopped from challenging the enforceability of the Extended Protective Amendment, unless a stockholder establishes that it did not vote in favor of the Extended Protective Amendment. Nonetheless, a court could find that the Extended Protective Amendment is unenforceable, either in general or as applied to a particular stockholder or fact situation.

**Is the Board able to make exceptions for transfers that would otherwise be restricted?**

Yes, the Board will have the discretion to approve transfers that would otherwise be restricted by the Extended Protective

Amendment if it determines that the approval is in our and our stockholders' best interests.

**What are some of the factors I should consider in deciding how to vote?**

Some of the factors you should consider before making your voting decision are discussed under the heading **Certain Considerations**

Related to the Extended Protective Amendment and the Rights Agreement Amendment, beginning on page 116 of this proxy statement.

**How long would the Extended Protective Amendment be in place?**

The Original Protective Amendment is currently scheduled to expire on May 9, 2016, subject to other earlier termination events as described in the Original Protective Amendment. If approved, the Extended Protective Amendment would extend the protections set forth in the Original Protective Amendment and expire on the earliest of (i) May 31, 2019, (ii) the date of the Board's determination that the Extended

Protective Amendment is no longer necessary for the preservation of our NOLs because of the repeal of Section 382 or any successor statute, (iii) the first day of our taxable year as to which the Board determines that none of our NOLs may be carried forward and (iv) such date as the Board determines that the Extended Protective Amendment is no longer necessary for the preservation of our NOLs.

**Table of Contents**

**Why does the Extended Protective Amendment generally expire on May 31, 2019?**

The Board proposes that the Extended Protective Amendment expire on May 31, 2019 so that (i) its protections coincide with the term of the NOL protective provisions in the Rights Agreement Amendment, described below, which protections also generally expire on May 31, 2019, and (ii) in the event the Board

recommends our stockholders further extend the term of the Extended Protective Amendment past May 31, 2019, which extension would require the approval of our stockholders, we have the flexibility to schedule our 2019 annual meeting at any time in May.

**The Rights Agreement Amendment**

**What is the purpose of the Rights Agreement Amendment?**

The purpose of the Rights Agreement Amendment is to help preserve the long-term value to us of our NOLs. The Original Rights Agreement Amendment was scheduled to expire on March 22, 2016, subject to other earlier termination events as described in the Rights Agreement. The Rights Agreement Amendment

adopted by the Board extends until May 31, 2019 the protections designed to deter the acquisition of our common stock in excess of amounts that, because of Section 382, could inhibit our ability to use our NOLs to reduce our future income tax liability.

**What acquisitions do the Rights Agreement deter?**

Subject to certain limited exceptions, during the Special Period (defined below), the Rights Agreement restricts any person from acquiring beneficial ownership of our common stock if the acquisition would result in a stockholder (or several stockholders, in the aggregate, who hold their stock as a public group under Section 382) owning 4.9% or more of our

outstanding common stock. After the end of the Special Period, the triggering threshold, or the Trigger Threshold, for the rights issued pursuant to the Rights Agreement will revert to 15% of our outstanding common stock and the definition of Beneficial Owner and Beneficially Own will revert to definitions that do not track Section 382 of the Code.

**How does the Rights Agreement affect me if I already own 4.9% or more of the common stock?**

Subject to certain specified exceptions, holders of 4.9% or more of our common stock as of February 11, 2015, are not able to acquire beneficial ownership of additional shares of our

common stock during the Special Period without triggering the dilutive effect of the Rights Agreement.

**Does the Rights Agreement restrict my ability to acquire additional shares of common stock if I own less than 4.9% of the common stock?**

No, unless you enter into a transaction or other agreement by which you would beneficially own

4.9% or more of our common stock.

**Table of Contents**

**Will the Board be able to make exceptions for acquisitions that would otherwise be restricted?**

Yes, the Board may, in its sole discretion, exempt any person or group from triggering the dilutive effect of the Rights Agreement.

**What are some of the factors I should consider in deciding how to vote?**

Some of the factors you should consider before making your voting decision are discussed under the heading Certain Considerations Related to the Extended Protective Amendment and the Rights Agreement Amendment, beginning on page 116 of this proxy statement.

**What is the duration of the Special Period?**

The Special Period is the period beginning on March 22, 2013 and ending at the earliest of (i) May 31, 2019, (ii) the date of the Board's determination that the Rights Agreement is no longer necessary for the preservation of our NOLs because of the repeal of Section 382 or any successor statute, (iii) the first day of our taxable year as to which the Board determines that none of our NOLs may be carried forward and (iv) such date as the Board otherwise determines that the Rights Agreement is no longer necessary for the preservation of our NOLs.

**Important Notice Regarding the Availability of the Proxy Materials for the  
Stockholder Meeting to be held on**

Edgar Filing: USG CORP - Form DEF 14A

**May 11, 2016**

This proxy statement and our 2015 annual report on Form 10-K are

available to you on the Internet at [www.proxyvote.com](http://www.proxyvote.com).

16 **USG Corporation** 2016 Proxy Statement

---

**Table of Contents**

**PROPOSAL 1 ELECTION OF DIRECTORS**

Our Board currently consists of nine directors divided into three classes, with each class elected for a three-year term. Three nominees comprise the class of directors to be elected at the annual meeting. The other two classes will be elected in 2017 and 2018.

The three candidates nominated by the Board for election as directors at the annual meeting are identified below. If any of those nominees

becomes unavailable prior to the annual meeting, the Board will (i) reduce the size of the Board to eliminate that position, (ii) nominate a candidate in place of the unavailable nominee, in which case all shares represented by proxies received by the Board will be voted for election of the substitute nominee, unless authority to vote for all candidates nominated by the Board is withheld, or (iii) leave the position vacant until a later date.

**Director Nominees and Directors Continuing in Office**

As evidenced by the director biographical information provided below, our directors have significant experience in chief executive or other senior level operating, financial, and international management positions. In addition, a majority of our directors have experience in cyclical businesses, which we believe will assist the Board in management's development and implementation of our growth strategies. These directors also have extensive familiarity with us and our industry, which provides them with a longer-term perspective about strategic, operational and financial issues associated with the cyclical nature of our business.

Seven of our nine directors also serve as a director of other public companies, which provides them with diverse experiences that can enhance their contribution to our Board governance practices. Also, Messrs. Armario and Hernandez, who are of Hispanic descent, Mr. Carter, who is African American, and Ms. Haggerty provide ethnic and gender

diversity to our Board that supports our commitment to diversity as a core value in our efforts to attract and retain a diverse workforce as well as to enhance our relationship with an increasingly diverse customer base.

Set forth below is information regarding the nominees for election as directors and information regarding the directors in each class continuing in office after the annual meeting. Also discussed below are specific experience, qualifications, attributes and skills of our current directors considered by the Governance Committee as part of its review of our Board's membership and in connection with its nomination of the candidates for election to the Board at the annual meeting. Additionally, the Governance Committee considered the qualities for directors set out in our Corporate Governance Guidelines and the cooperative manner in which the directors interact and conduct the Board's deliberations.



**Table of Contents**

**NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS  
FOR A THREE-YEAR TERM TO EXPIRE IN 2019**

**The Board recommends a vote FOR the election of each of the nominees for director.**

**THOMAS A. BURKE**, 58, has been President and Chief Executive Officer of Modine Manufacturing Company, a publicly-traded manufacturer of thermal management systems and components, for the past eight years. Mr. Burke serves as a director of Modine Manufacturing Company and as a director of the National Association of Manufacturers. Mr. Burke has been a director since September 2013. He is a member of the Board's Audit and Governance Committees.

Mr. Burke has experience managing cyclical businesses and international operations as the President, Chief Executive Officer and board member of Modine Manufacturing Company. He also has valuable insights regarding the manufacturing industry from his service on the board of the National Association of Manufacturers.

**BRIAN A. KENNEY**, 56, is Chairman, President and Chief Executive Officer of GATX Corporation, a publicly-traded global railcar lessor, and has held this position since 2005. Mr. Kenney serves on the Board of Trustees of the Shedd Aquarium in Chicago and the Advisory Board for the Kellogg Institute of International Studies at the University of Notre Dame. Mr. Kenney has been a director since February 2011. He is Chair of the Board's Finance Committee and a member of its Governance Committee.

As Chairman, President and Chief Executive Officer of GATX Corporation, Mr. Kenney has obtained extensive strategic, operational, financial and international investment experience and corporate governance insights. The similarity of the cyclical nature of our business and GATX Corporation's business provides Mr. Kenney with an understanding of the challenges recent economic conditions present for our businesses.

**STEVEN F. LEER**, 63, retired as Chairman of Arch Coal, Inc., a publicly-traded coal producing company, in 2014 after having served in that position since April 2006. He was also the Chief Executive Officer of Arch Coal, Inc. until April 2012. Mr. Leer is a director of Norfolk

Southern Corporation, Cenovus Energy Inc. and Parsons Corporation. He is a former director of the Greater St. Louis Area Boy Scouts of America and the National Association of Manufacturers and currently serves on the Board of Regents of Washington University in St. Louis. Mr. Leer has been a director since June 2005. He is the Board's Lead Director, Chair of its Governance Committee and a member of its Compensation and Organization Committee.

Mr. Leer provides corporate governance insights from his service as Chairman of Arch Coal, Inc. and as a director of other public companies and particular insights regarding business conditions and developments in the United States from his service on the board of the National Association of Manufacturers.

18 **USG Corporation** 2016 Proxy Statement

**Table of Contents**

**Directors Continuing in Office (Terms Expiring in 2017)**

**MATTHEW CARTER JR.**, 55, has been President and Chief Executive Officer of Inteliquent, Inc., a publicly-traded provider of voice telecommunications services, since June 2015. He served as President of the Sprint Enterprise Solutions business unit of Sprint Corporation, a publicly-traded telecommunications company, from September 2013 until January 2015 and as President, Sprint Global Wholesale & Emerging Solutions at Sprint Nextel Corporation from January 2010 until September 2013. Mr. Carter is a director of Apollo Education Group, Inc. He has been a director since September 2012. Mr. Carter is a member of the Board's Compensation and Organization and Governance Committees.

Mr. Carter has significant marketing, technology and international experience, including management oversight for all of Inteliquent, Inc.'s operations, and insights as a director and member of the audit and finance committees of another public company.

**RICHARD P. LAVIN**, 63, served as President and Chief Executive Officer of Commercial Vehicle Group, Inc., a publicly-traded supplier of cab-related products and systems for the global commercial vehicle market, from May 2013 until November 2015. Mr. Lavin had previously served as Group President of Caterpillar Inc., a publicly-traded manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives, until his retirement in December 2012, after having worked for Caterpillar for nearly 29 years. Mr. Lavin also serves as a director for ITT Corporation and Allison Transmission Holdings, Inc. and previously served as a director of Commercial Vehicle Group, Inc. Mr. Lavin has been a director since November 2009. He is Chair of the Board's Compensation and Organization Committee and a member of its Finance Committee.

Mr. Lavin gained experience managing cyclical, global manufacturing businesses as the President and Chief Executive Officer of Commercial Vehicle Group, Inc. and prior thereto as Group President of Caterpillar Inc. He also has a diverse legal and human resources background.

**JAMES S. METCALF**, 58, is our Chairman, President and Chief Executive Officer. He was elected Chairman effective December 1, 2011. He has served as our Chief Executive Officer and President since

January 2011 and was our President and Chief Operating Officer from January 2006 until becoming Chief Executive Officer. He is a director of Tenneco Inc. and the National Association of Manufacturers and previously served as a director of Molex Corporation. Mr. Metcalf has been a director since May 2008.

Mr. Metcalf has served as an executive officer for more than 15 of his almost 35 years with USG, with direct management responsibility during his career for our North American Gypsum, Building Products Distribution and Worldwide Ceilings businesses. He provides governance insights from his past and present service as a director of another public company and particular insights regarding business conditions and developments in the United States from his service on the board of the National Association of Manufacturers.

**Table of Contents**

**Directors Continuing in Office (Terms Expiring in 2018)**

**JOSE ARMARIO**, 56, retired as Executive Vice President of Worldwide Supply Chain, Development, and Franchising of McDonald's Corporation, a publicly-traded restaurant operator and franchisor, in October 2015, after having held that position since August 2011. He served as Group President, McDonald's Canada and Latin America of McDonald's Corporation from February 2008 to August 2011. Mr. Armario is a director of the International Advisory Board and President's Council of the University of Miami. He also is a director of The Chicago Council on Global Affairs. Mr. Armario has been a director since January 2007. He is a member of the Board's Audit and Compensation and Organization Committees.

Mr. Armario has extensive global consumer products marketing, branding, supply chain and Latin American markets expertise gained in his roles at McDonald's Corporation.

**GRETCHEN R. HAGGERTY**, 60, retired as the Executive Vice President and Chief Financial Officer of United States Steel Corporation, a publicly-traded integrated steel producer, in August 2013, after having held that position for more than the past five years. Ms. Haggerty is a director of the Strategic Investment Fund and the United Way of Allegheny County. Ms. Haggerty has been a director since May 2011. She is a member of the Board's Audit and Finance Committees.

Ms. Haggerty spent more than ten years as chief financial officer of United States Steel Corporation, and also has substantial international and cyclical business experience.

**WILLIAM H. HERNANDEZ**, 67, retired as Senior Vice President, Finance and Chief Financial Officer of PPG Industries, Inc., a publicly-traded manufacturer of coatings, chemical and industrial products, specialty materials and glass products, in 2009. He is a director of Black Box Corporation, Albemarle Corporation and Northrop Grumman Corporation and previously served as a director of the Eastman Kodak Company. Mr. Hernandez has been a director since September 2009. He is Chair of the Board's Audit Committee and is a member of its Finance Committee.

Mr. Hernandez spent more than 15 years as chief financial officer of PPG Industries, Inc. and has substantial experience as a director, Board leadership as Chair of the Audit Committee and insights as a director and member of the audit committees of two other public companies, on both of which he serves as chair. He also has significant cyclical business experience.

20 **USG Corporation** 2016 Proxy Statement

**Table of Contents**

**Director Independence**

The listing standards of the NYSE require that a majority of our directors and all members of our Audit, Compensation and Organization and Governance Committees be independent. Our Corporate Governance Guidelines provide that, as a matter of policy, at least 80% of our directors should be independent in accordance with the NYSE listing standards and our By-laws.

Under the NYSE listing standards, a director is considered independent only if the Board affirmatively determines that the director has no material relationship with [us] (either directly or as a partner, shareholder or officer of an organization that has a relationship with [us]). A director is not independent if the director does not meet certain standards specifically set out in the NYSE listing standards. Our By-laws provide that members of legal, accounting or auditing firms providing services to us are also not independent.

Using the standards for determining the independence of its members described above, and based upon information provided by each of our directors and the recommendation of the Governance Committee of our Board, the Board has determined that each of our directors, except Mr. Metcalf, our Chairman, President and Chief Executive Officer, is independent as defined by the NYSE listing standards and our By-laws and Corporate Governance Guidelines.

In making this determination, the Board considered the following transactions, relationships and arrangements involving the directors identified below:

Jose Armario was an executive officer of a corporation to which we sell building materials;

Matthew Carter Jr. was an executive officer of Sprint, from which we purchase communication services and equipment, and he is an executive officer of Inteliquent, Inc., which agreed, prior to the time Mr. Carter was associated with Inteliquent, to sublease office space from us;

Gretchen R. Haggerty's brother is a partner at a firm used by UBBP for tax compliance services;

William H. Hernandez is a director of a corporation from which we purchase communication equipment;

Brian A. Kenney is an executive officer and a director of GATX Corporation, from which we lease railcars;

Richard P. Lavin is a director of a corporation from which we purchase equipment; and

Steven F. Leer is a director of a corporation from which we purchase rail transportation services.



---

**Table of Contents**

**BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**

**Meetings of the Board of Directors**

The Board held six meetings, and its committees held a total of 18 meetings, during 2015. Each director attended at least 93% of the meetings of the Board and the committees on which he or she served.

Two executive sessions of the Board are required to be held annually by our Corporate Governance Guidelines. The Board met in executive session at each of its six regularly scheduled meetings.

**Board Leadership**

Mr. Metcalf is Chairman of the Board, President and Chief Executive Officer. He has been our Chief Executive Officer since January 1, 2011 and became Chairman of the Board on December 1, 2011. Our Corporate Governance Guidelines provide that it is the Board's policy that the matter of whether the Chairman and Chief Executive Officer positions should be separate is one to be considered when a new Chief Executive Officer is selected, unless the Board believes consideration of the matter is warranted at another time based on then-existing circumstances. The Governance Committee and the Board discussed board leadership alternatives on a number of occasions during 2011 before deciding to recombine the Chairman and Chief Executive Officer roles.

As a result of Mr. Metcalf's long tenure at USG, including five years as President and Chief Operating Officer, the Board believes he is uniquely qualified through his experience and expertise to be the person who generally sets the agenda for, and leads discussions of, strategic issues. The Board also believes that Mr. Metcalf's serving as both Chairman and Chief Executive Officer is appropriate taking into consideration the size and nature of our businesses, Mr. Metcalf's established working relationship and open communication with our independent directors, the significant board-level experience of our independent directors as a whole, the strong independent leadership and

accountability to stockholders provided by more than 80% of our directors being independent, the independent leadership provided by our Committee chairs and our Board culture in which Mr. Metcalf and the other directors are able to debate different points of view and reach consensus in an efficient manner.

In deciding that a combined Chairman and Chief Executive Officer position is the appropriate leadership structure for the Company at this time, the Governance Committee and Board also recognized the benefit of independent leadership to enhance the effectiveness of the Board's oversight role and communications between the Board and Mr. Metcalf. Our Corporate Governance Guidelines provide that in the event the Chairman and Chief Executive Officer positions are held by one person, our independent directors may designate a Lead Director from among the independent

directors. The designation of the Lead Director is to be made annually, although with the expectation of the Board that the Lead Director will be re-appointed for multiple, consecutive one-year terms. Steven F. Leer was designated as our first Lead Director in 2012, and has remained in the position for each subsequent year. The responsibilities of the Lead Director include:

consulting with the Chairman and Chief Executive Officer regarding the schedule of Board and Committee meetings;

**Table of Contents**

providing the Chairman and Chief Executive Officer with input regarding the agendas and materials for Board meetings;

presiding at executive sessions of the independent directors, except as otherwise provided in our Corporate Governance Guidelines, and at any Board meeting at which the Chairman and Chief Executive Officer is not present;

serving as an adviser to the Chairman and Chief Executive Officer regarding his concerns and those of the independent directors;

serving as a liaison and supplemental channel of communication between the Chairman and Chief Executive Officer and the independent directors; and

consulting and communicating with major stockholders, as requested by the Chairman and Chief Executive Officer.

**Committees of the Board of Directors**

The Board has four standing committees. They are the

Audit Committee,

Compensation and Organization Committee,

Finance Committee, and

Governance Committee.

Each committee has a charter that requires its members to be independent as defined in the NYSE listing standards and our By-laws and Corporate Governance Guidelines. The following table indicates the current members of each Board committee.

Name	Audit	Finance	Governance
------	-------	---------	------------

<b>Compensation and Organization</b>	
Jose Armario	
Thomas A. Burke	
Matthew Carter Jr.	
Gretchen R. Haggerty	
William H. Hernandez	
Brian A. Kenney	
Richard P. Lavin	
Steven F. Leer	

Chairperson

Member

**Table of Contents**

**Audit Committee**

The Audit Committee's responsibilities include:

assisting the Board in monitoring the integrity of our financial statements, our compliance with financial reporting and related legal and statutory requirements and the independence and performance of our internal and external auditors; and

selecting and employing a firm of independent registered public accountants to audit our financial statements and internal control over financial reporting each year, which firm is ultimately accountable to the Audit Committee and the Board.

The Board has determined that Ms. Haggerty and Messrs. Armario, Burke and Hernandez are audit committee financial experts as defined by the rules of the Securities and Exchange Commission. The Board has also determined that each member of the Audit Committee is independent as defined by the applicable NYSE and Securities and Exchange Commission rules. The Audit Committee met seven times during 2015.

**Compensation and Organization Committee**

The Compensation and Organization Committee's responsibilities include:

reviewing and making recommendations to the Board regarding management organization, succession and development programs, and the election of corporate officers;

reviewing and approving, or recommending for approval, officers' salaries, incentive compensation and bonus awards;

making, itself or through a subcommittee, the decisions required by a committee of the Board under all equity compensation plans we have adopted;  
approving and reporting to the Board changes in salary ranges for all major position categories and changes in our retirement, group insurance, investment, management incentive compensation and other benefit plans;

and

reviewing, and reporting to the Board regarding, activities with respect to employee safety and occupational health, diversity and equal employment opportunity and corporate contributions.

The Board has determined that each member of the Compensation and Organization Committee is independent as defined by the applicable NYSE and Securities and Exchange Commission rules. The Compensation and Organization Committee met five times during 2015.

24 **USG Corporation** 2016 Proxy Statement

**Table of Contents**

**Finance Committee**

The Finance Committee's responsibilities include:

providing review and oversight of, and making recommendations to the Board regarding, material financing requirements and funding programs, including debt issuances and repurchases, dividend policy and acquisitions, divestitures and significant transactions affecting our capital structure or ownership; and

reviewing and making recommendations to the Board regarding the funding of our qualified retirement plans in excess of minimum amounts required by law and authorizing necessary or desirable changes in actuarial assumptions for funding those retirement plans.

The Board has determined that each member of the Finance Committee is independent as defined by the applicable NYSE and Securities and Exchange Commission rules. The Finance Committee met three times during 2015.

As discussed under Proposal 4 Approval of Committee Amendment on page 101 of this proxy statement, our Certificate currently requires that we maintain a Finance Committee. If the Committee Amendment is approved by our stockholders, the Board will have the flexibility to eliminate the Finance Committee, in order to make our governance structure more efficient. If eliminated, many responsibilities of the Finance Committee would be assumed by the full Board, while the remainder would be assumed by the Audit Committee or another existing committee of the Board.

**Governance Committee**

The Governance Committee's responsibilities include:

making recommendations to the Board concerning the size and composition of the Board and its committees;

recommending nominees for election or reelection as directors;

considering other matters pertaining to Board membership, such as the retirement policy and compensation of non-employee directors; and

evaluating Board performance and assessing the adequacy of, and compliance with, our Corporate Governance Guidelines and Code of Business Conduct.

The Board has determined that each member of the Governance Committee is independent as defined by the applicable NYSE and Securities and Exchange Commission rules. The Governance Committee met three times during 2015.

**USG Corporation** 2016 Proxy Statement 25

**Table of Contents**

**Stockholder Nominee Recommendations and Criteria for Board Membership**

The Governance Committee considers director nominee recommendations submitted by our stockholders. Director nominee recommendations from stockholders must be in writing and include a brief account of the nominee's business experience during the past five years, including principal occupations and employment during that period and the name and principal business of any corporation or organization of which the nominee is a director. Stockholder director nominee recommendations should be sent to the Governance Committee, USG Board of Directors, c/o Corporate Secretary, 550 West Adams Street, Chicago, Illinois 60661-3676. Recommendations may be submitted at any time, but will not be considered by the Governance Committee in connection with an annual meeting unless received on or before the date prior to the annual meeting determined as provided in our By-laws. The director nominee recommendation submission deadline for the 2017 annual meeting of stockholders is described under the heading "Deadline for Stockholder Proposals" on page 119 of this proxy statement.

Our process for reviewing and selecting new director nominees involves seeking out a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board, USG and our stockholders. Desired qualities for our directors, including those recommended for nomination by our stockholders, are described in our Corporate Governance Guidelines and on our website [www.usg.com](http://www.usg.com). Those qualities include high-level leadership experience in business or administrative activities, breadth of knowledge about issues affecting USG, ability and willingness to contribute special

competencies to Board activities and personal attributes such as integrity, willingness to apply sound and independent business judgment and assume broad fiduciary responsibility and awareness of a director's vital contribution to our corporate image. Additional search criteria may be determined by the Governance Committee. We do not have a formal policy with regard to the consideration of diversity in identifying directors. Our Corporate Governance Guidelines provide that candidates for Board membership will be considered without regard to race, color, religion, gender, ancestry, national origin, sexual orientation or disability. When seeking new director candidates, the Governance Committee considers the subject matter expertise and geographic experience of existing Board members to determine whether a candidate with a particular expertise or experience set would be desirable. The Committee seeks to have a mix of directors with experience in one or more areas relevant to our businesses, including operations, manufacturing, marketing, finance, human resources, engineering, technology and innovation and international, as well as experience with cyclical businesses. It may also decide to seek a qualified candidate who is female or adds to the ethnic diversity of the Board.

Generally, to fill a vacancy or to add an additional director, the Governance Committee retains an executive search firm to assist in identifying and recruiting appropriate candidates. Any director candidate selected by this process or as a result of a stockholder recommendation is expected to meet with a number of directors, including the Chair of the Governance Committee, prior to any decision to nominate the candidate for election to the Board.

## **Table of Contents**

### **Communications with Directors**

Stockholders and other interested parties may send communications to our directors as a group or individually by addressing them to the director or directors at USG Corporation, c/o Corporate Secretary, 550 West Adams Street, Chicago, IL 60661-3676. Stockholder communications will be reviewed by the

Corporate Secretary for relevance to our business and then forwarded to the intended director(s), as appropriate. As a matter of policy, all directors are expected to attend the annual meeting. All directors serving at the time attended the 2015 annual meeting.

### **Risk Oversight**

The NYSE listing requirements provide that our Audit Committee must discuss our guidelines and policies that govern the process by which we assess and manage our exposure to risk. Consistent with this requirement, the Audit Committee's charter provides that the Committee's responsibilities include discussing our risk assessment and risk management policies. This discussion takes place at least once each year as part of our review of our enterprise risk management (ERM) program. That review includes discussion of management delegations of responsibility for the principal financial, governance, legal and operational risk exposures identified as part of our ERM program and delegations of responsibility for oversight of those risks to Board committees and/or the full Board. The Board committees consider risks related to matters within the scope of their responsibilities as part of their regular meeting agendas, and the committee chairs report to the full Board regarding matters considered by their committees following each committee meeting. Management also formally reviews strategic risks with the full Board at least once each year, typically as part of our strategic planning review with the Board. The Board also reviews individual risks as they relate to specific issues presented to the Board throughout the year.

In early 2016 management updated and reviewed with the Compensation and Organization Committee a risk assessment of our compensation policies and practices for all employees, including our executive officers. As part of its assessment, management reviewed our compensation programs for certain design features that commentators have identified as

having the potential to encourage excessive risk-taking, including:

too much focus on equity awards;

total compensation opportunity that is overly weighted toward annual incentives;

highly leveraged payout curves and uncapped payouts;

unreasonable goals or thresholds; and

steep payout cliffs at certain performance levels that may encourage short-term business decisions to meet payout thresholds.

In its assessment, management noted several design features of our compensation programs that reduce the likelihood of excessive risk-taking, including:

the program design for executive officers and other senior managers provides a balanced mix of cash and equity awards, annual and long-term incentives and operating and financial performance metrics that promote a focus on long-term performance without undue emphasis on short-term results;

maximum payout levels under most of our annual incentive programs are capped at 200% of target, or par;

## **Table of Contents**

our annual incentive program performance targets for business unit heads include non-business unit targets in order help incentivize business unit head participants to properly consider our overall corporate performance when making decisions;

the Compensation and Organization Committee has downward discretion over annual incentive program payouts;

the annual incentive program for our executive officers, and the agreements evidencing their equity awards for 2016 and the seven prior years, allow the Board to clawback payments made to them under certain circumstances;

we introduced the use of market share units in our long-term incentive plan because they may retain some value in a depressed market so that their holders are less likely to take unreasonable risks than they would to get or keep options in the money ;

our equity awards generally are granted on an annual basis with long-term, overlapping vesting periods to motivate award holders to focus on sustained stock price appreciation; and

the stock ownership requirements for our executive officers and other senior managers align the interests of the holders of those awards with the interests of our stockholders.

Based on its assessment, management concluded that our compensation programs promote value creation, do not encourage excessive risk and are not reasonably likely to have a material adverse effect on us. The Compensation and Organization Committee and its consultant concurred with that conclusion based on management's review of its assessment with them.

## **Corporate Governance**

Our By-laws, Corporate Governance Guidelines and Code of Business Conduct, and the charters of our Board committees, are posted on our website [www.usg.com](http://www.usg.com). The information on our website is not, and will not be deemed to be, a

part of this proxy statement or incorporated into any of our other filings with the Securities and Exchange Commission except where we expressly incorporated such information.

**Table of Contents****SECURITIES OWNERSHIP****Directors and Executive Officers**

The following table sets forth information as of the record date regarding beneficial ownership of our common stock by each director and each executive officer named in the Summary Compensation Table and all directors and executive officers as a group, including any shares held by executive officers through the Investment Plan.

<b>Name</b>	<b>Common Shares Beneficially Owned, Excluding Shares Subject to Options and Restricted Stock Units (a)</b>	<b>Shares Subject to Vested Options and Restricted Stock Units that Vest Within 60 Days</b>	<b>Deferred Stock Units (b)</b>	<b>Total Beneficial Stock Unit Holdings</b>	<b>Percent of Class</b>
Jose Armario (c)	1,944		71,149	73,093	*
Thomas A. Burke	710		9,209	9,919	*
Matthew Carter Jr. Dominic A. Dannessa		112,125	12,774	12,774	*
Stanley L. Ferguson (d)	62,093	79,493		174,218	*
Christopher R. Griffin (e)	106,589			186,082	*
Gretchen R. Haggerty	108,575			108,575	*
William H. Hernandez	34,496		19,833	34,496	*
Matthew F. Hilzinger (f)	17,905	120,419		37,738	*
Brian A. Kenney	64,270			184,689	*
Richard P. Lavin	29,442			29,442	*
Steven F. Leer	29,440		80,151	29,440	*
James S. Metcalf	5,818	288,213		85,969	*
Jennifer F. Scanlon	309,728	64,395		597,941	*
All directors and executive officers as a group (22 persons)	32,588		193,116	96,983	*
	988,193	879,952		2,061,261	1.40%

\* Less than one percent

- (a) Unless otherwise noted, each individual or member of the group has sole voting power and investment power with respect to the shares shown in this column.
- (b) Indicates the non-voting deferred stock units credited to the account of the individual director or members of the group under current and past director compensation programs. The units increase and decrease in value in direct proportion to the market value of our common stock and are paid in cash or stock following termination of Board service.
- (c) Includes 1,131 shares held by trusts for the benefit of Mr. Armario's children.
- (d) Mr. Ferguson's holdings are as of December 31, 2015, the date of his retirement from the Company.
- (e) Mr. Griffin's holdings are as of July 31, 2015, the date on which he ceased to be an employee of the Company, taking into account stock options that were exercised, forfeited or expired after that date.
- (f) Includes 54,969 shares held by the M&S Hilzinger Family, LP, over which Mr. Hilzinger and his wife share voting and investment power.

**Table of Contents****Principal Stockholders**

The following table provides information regarding the beneficial ownership of our common stock by all persons known by us to be the beneficial owner of more than 5% of our common stock on the record date. This information is based upon statements on Schedule 13D or 13G or Form 3 or 4 filed by those persons with the Securities and Exchange Commission.

<b>Name and Address of Beneficial Owner</b>	<b>Amount of Beneficial Ownership</b>	<b>Percent of Class</b>
Berkshire Hathaway Inc. <sup>(a)</sup>		
1440 Kiewit Plaza	43,387,980	29.75%
Omaha, Nebraska 68131		
C & G Verwaltungs GmbH <sup>(b)</sup>		
Am Bahnhof 7	14,757,258	10.12%
97346 Iphofen		
Federal Republic of Germany		

- (a) The number of shares shown as beneficially owned includes (a) 17,072,192 shares held by National Indemnity Company, a Nebraska insurance corporation ( NICO ), which is an indirect subsidiary of Berkshire Hathaway, Inc., a Delaware corporation ( Berkshire Hathaway ), (b) 14,035,088 shares (the BH Nebraska Shares ) held by Berkshire Hathaway Life Insurance Company of Nebraska, a Nebraska corporation ( BH Nebraska ), (c) 7,894,736 shares (the BH Assurance Shares, and together with the BH Nebraska Shares, the Nebraska/Assurance Shares ) held by Berkshire Hathaway Assurance Corporation, a New York corporation ( BH Assurance ), and (d) 4,385,964 shares (the General Re Life Shares ) held by General Re Life Corporation, a Connecticut corporation ( General Re Life ). Mr. Buffett may be deemed to control Berkshire Hathaway, which controls BH Nebraska, BH Assurance and General Re Life. Thus, both Mr. Buffett and Berkshire Hathaway may be considered to have beneficial ownership of the Nebraska/Assurance Shares and the General Re Life Shares. NICO, a direct subsidiary of Berkshire Hathaway and the direct parent company of BH Nebraska and BH Assurance, also may be considered to have beneficial ownership of the Nebraska/Assurance Shares. General Reinsurance Corporation, a Delaware corporation ( General Reinsurance ), an indirect subsidiary of Berkshire Hathaway and the direct parent company of General Re Life, also may be considered to have beneficial ownership of the General Re Life Shares. General Re Corporation, a Delaware corporation ( General Re ), a direct subsidiary of Berkshire Hathaway and the direct parent company of General Reinsurance, also may be considered to have beneficial ownership of the General Re Life Shares. BH Nebraska has voting and investment power with respect to the BH Nebraska Shares. BH Assurance has voting and investment power with respect to the BH Assurance Shares. However, Mr. Buffett, Chairman of the Board of Directors of Berkshire Hathaway, who may be deemed to control BH Nebraska and BH

Assurance, directs the investment of BH Nebraska and BH Assurance. Thus, Mr. Buffett, Berkshire Hathaway, and NICO share voting and investment power with respect to the Nebraska/Assurance Shares. General Re Life has voting and investment power with respect to General Re Life Shares. However, Mr. Buffett, Chairman of the Board of Directors of Berkshire Hathaway, who may be deemed to control General Re Life, directs the investment of General Re Life. Thus, Mr. Buffett, Berkshire Hathaway, General Reinsurance and General Re share voting and investment power with respect to the General Re Life Shares.

- (b) C & G Verwaltungs GmbH, a limited liability company organized under the laws of the Federal Republic of Germany ( C&G ), is an indirect subsidiary of Gebr. Knauf Verwaltungsgesellschaft KG, a limited partnership organized under the laws of the Federal Republic of Germany ( Gebr. Knauf ) controlled by members of the Knauf family. Hans Peter Ingenillem and Martin Stürmer are the general managers of C&G, and Mr. Ingenillem and Manfred Grundke are the general partners of Gebr. Knauf. C&G and Gebr. Knauf both report that they have sole voting and dispositive power with respect to all of the reported shares.

---

**Table of Contents**

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**Policies and Procedures Regarding Related Party Transactions**

Our Code of Business Conduct provides that all of our employees, including our executive officers, and our directors, must avoid conflicts of interest - situations where their personal interest may be inconsistent with our interest and may interfere (or appear to interfere) with the employee's or director's objectivity in making business decisions on our behalf. A conflict of interest may exist, for example, when an employee, officer or director (or one of their family members) has a financial interest in a company with which we do business or if an employee, officer or director in a position to influence business dealings with a company (a) has a direct or indirect interest in that company that would reasonably be viewed as significant to that person and (b) the amount of business done between us and that company is significant.

All of our employees and directors are required to report conflicts of interest so that we may address the situation properly. After disclosure, some conflicts of interest can be resolved through implementing appropriate controls for our protection. Where an appropriately disclosed conflict of interest is minor and not likely to adversely impact us, we may consent to the activity. In other cases where appropriate controls are not feasible, the person involved will be requested not to enter into, or to discontinue, the relevant transaction or relationship.

All of our executive officers and other salaried employees are required to disclose actual or potential conflicts of interest in which they may be personally involved in an annual certification reviewed by our Internal Audit and Legal Departments. In addition, all of our executive officers are required to disclose actual or potential conflicts of interest by quarterly certifications. Employees who complete these certifications are also required to promptly report

in writing to the Internal Audit Department any conflict of interest situations that arise during the period between certifications.

Conflict of interest situations reported by employees are addressed by our Business Ethics Committee made up of representatives from our Internal Audit, Legal and Human Resources Departments, and, where appropriate, by senior management. If the conflict of interest involves one of our executive officers, the situation will be addressed by our Board or the Audit Committee of the Board. Quarterly reports of employee conflicts of interest and the resolution of them are provided to our Disclosure Committee and Chief Executive Officer in accordance with our disclosure controls and procedures.

We recognize that directors may be connected with other organizations with which we have business dealings from time to time. Under our Corporate Governance Guidelines, it is the responsibility of each director to advise the Chairman of the Board and the Governance Committee of the Board, through its Chair, of any affiliation with public or privately held businesses or enterprises that may create a potential conflict of interest, potential embarrassment to us, or possible inconsistency with our policies or values. Directors are also to advise the Chairman of the Board and the Governance Committee in advance of accepting an invitation to serve on the board of another public company.

We annually solicit information from our directors in order to monitor potential conflicts of interest. In accordance with our Corporate Governance Guidelines, any actual or potential conflict of interest involving a director will be

investigated by the Governance Committee, with management assistance as requested, to

**Table of Contents**

determine whether the affiliation or transaction reported impairs the director's independence and whether it is likely to adversely impact us. If the Committee determines that the director's independence would be impaired, or the affiliation or transaction would likely impact us adversely, the director would generally be asked not to enter into, or to discontinue, the reported relationship or to resign from the Board. In other circumstances, the Committee will generally determine what, if any, controls, reporting and/or monitoring procedures are appropriate for our protection as a condition for approving the reported relationship or transaction. Relationships that give rise to potential conflicts of interest are generally not considered to adversely impact us if they are not required to be disclosed pursuant to Item 404(a) of the Securities and Exchange Commission's Regulation S-K because

the amount involved in the transaction is less than \$120,000,

the director's only relationship to the other party involved in the transaction is as a director,

the director's interest arises solely from the ownership of our stock and all holders of our stock received the same benefit on a pro rata basis,

the transaction involves rates or charges determined by competitive bids, or  
the transaction involves the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority.

In connection with our businesses, we enter into thousands of transactions every year involving thousands of customers. In order to conduct those businesses, we also procure goods and services from thousands of vendors. Some of those customers and vendors may be affiliated with members of our Board or our 5% stockholders. We believe that all such sales and procurement transactions have been conducted on an arm's length basis and involved terms no less favorable to us than those that we believe we would have obtained in the absence of such affiliation. It is our management's policy to bring to the attention of our Governance Committee any transaction with a related party, even if the transaction arises in the ordinary course of business, if the terms of the transaction would be less favorable to us than those to which we would agree to in normal commercial circumstances. For additional information regarding our transactions with companies of which certain of our non-employee directors are executive officers, see "Director Independence" above.

Compensation of all of our executive officers is approved by our Compensation and Organization Committee or the Board and compensation of our directors is approved by the Board.

**Table of Contents**

**Issuance, and Call for Redemption, of Convertible Senior Notes**

In November 2008, we issued \$400 million aggregate principal amount of 10% Contingent Convertible Senior Notes due 2018 to affiliates of Berkshire Hathaway, among others. Berkshire Hathaway beneficially owns more than 5% of our common stock.

In November 2013, we issued a notice of redemption to redeem \$325 million in aggregate principal amount of the notes. The notes called for redemption could either be (1) redeemed at a stated redemption price or (2) converted into shares of USG common stock. The holders of all \$325 million in notes called for redemption elected to convert their notes into shares of USG's common stock. Accordingly, in December 2013 we issued an additional 28,508,768 shares of common stock to the holders of the notes called for redemption, including affiliates of Berkshire Hathaway.

In March 2014, we issued a notice of redemption to redeem the remaining \$75 million in aggregate principal amount of outstanding notes. Again, the notes called for redemption could either be (1) redeemed at a stated redemption price or (2) converted into shares of USG common stock. The holders of all \$75 million in notes called for redemption elected to convert their notes into shares of USG's common stock. Accordingly, in April 2014 we issued an additional 6,578,946 shares of common stock to the holders of the notes called for redemption, including affiliates of Berkshire Hathaway.

In connection with the 2008 issuance of notes, we entered into a registration rights agreement with Berkshire Hathaway. Under the registration rights agreement, we granted Berkshire Hathaway demand and piggyback registration rights with respect to all of the shares of common stock held by it and specified affiliates from time to time. The registration rights agreement entitles Berkshire Hathaway to make three demands for registration of all or part of the common stock held by it and its affiliates, subject to certain conditions and exceptions. The registration rights agreement also provides that, subject to certain conditions and exceptions, if we propose to file a registration statement under the Securities Act of 1933, as amended, with respect to an offering of securities on a form that would permit registration of the shares of common stock that are held by Berkshire Hathaway or the specified affiliates, then we will offer Berkshire Hathaway and its specified affiliates the opportunity to register all or part of its shares of common stock on the terms and conditions set forth in the registration rights agreement. The registration rights agreement with Berkshire Hathaway amended and restated the registration rights agreement we entered into with Berkshire Hathaway in January 2006.

The registration rights agreement and the notices of redemption issued with respect to the notes in November 2013 and March 2014 were approved by our Board. Copies of the agreements referred to in this section and other related agreements are included in a report we filed with the Securities and Exchange Commission on November 26, 2008.

**Table of Contents**

**Shareholder s Agreement with Berkshire Hathaway**

In connection with the equity commitment agreement we entered into with Berkshire Hathaway in January 2006, we entered into the Shareholder s Agreement with Berkshire Hathaway pursuant to which Berkshire Hathaway agreed that during the time that Berkshire Hathaway owns our equity securities, Berkshire Hathaway will be exempted from our stockholder rights plans, including the Rights Agreement, the Original Protective Amendment and the Extended Protective Amendment,

except that such plans may require that Berkshire Hathaway does not acquire (although it may continue to hold) beneficial ownership of more than 50% of our voting securities, on a fully-diluted basis, other than pursuant to an offer to acquire all shares of our common stock that is open for at least 60 calendar days.

The Shareholder s Agreement was approved by our Board.

---

**Table of Contents**

**Transactions with Principal Stockholders**

We purchase products, principally fiberglass and insulation, and services, including pipeline services and insurance services, and lease equipment from subsidiaries of Berkshire Hathaway in the ordinary course of our business. The aggregate amount of those purchases and lease transactions in 2015 was approximately \$40.4 million. In addition, we sell roofing and other building products to subsidiaries of Berkshire Hathaway. The aggregate amount of these sales in 2015 was \$12.4 million.

We purchase products, principally insulation, from affiliates of Gebr. Knauf in the ordinary course of business. Those purchases aggregated approximately \$2.5 million in 2015. We sold approximately \$2.1 million of products to affiliates of Gebr. Knauf in 2015.

In September 2015, we and our indirect wholly-owned subsidiary, USG Ventures-Europe GmbH, entered into an Interest and Share Purchase Agreement ( ISPA ) with Knauf Aquapanel GmbH, an affiliate of Gebr. Knauf (collectively, Knauf ), pursuant to which USG Ventures-Europe GmbH sold to Knauf its 50% share of its interests in Knauf/USG Verwaltungs GmbH and Knauf/USG Systems GmbH & Co. KG (collectively, the Knauf-USG Joint Venture ) for a total price of 48 million in cash. The Knauf-USG Joint Venture has manufactured and distributed Aquapanel® brand cement panels throughout Europe (excluding Turkey) and all countries that were part of the former Soviet Union since 2001. The sale was consummated in December 2015. USG recorded a \$6 million net gain on the disposition. The sale of our interests in the Knauf-USG Joint Venture was approved by our Board.

In 2012, we and our wholly-owned subsidiaries, USG Foreign Investments, Ltd. and USG (UK) Ltd., collectively the Sellers, entered into a Share and Asset Purchase Agreement ( SAPA ) with Knauf International GmbH and Knauf AMF Ceilings Ltd., affiliates of Knauf, pursuant to which the Sellers sold to Knauf certain of their wholly-owned European business operations. The sale was approved by our Board.

There are continuing indemnification obligations under the ISPA and SAPA pursuant to which we may be obligated to pay money to, or entitled to receive money from, certain entities affiliated with Knauf.

We and our subsidiary L&W Supply Corporation were named as defendants in lawsuits relating to Chinese-made wallboard installed in homes primarily in the southeastern United States in 2006 and 2007. Most of the lawsuits against us related to wallboard manufactured by Knauf Plasterboard (Tianjin) Co., an affiliate of Gebr. Knauf. Those lawsuits have been resolved, and we have reached an agreement with Gebr. Knauf and their affiliates that limits our responsibility for claims against us for homes to which we delivered Knauf Plasterboard (Tianjin) Co. wallboard. In accordance with the agreement, an affiliate of Gebr. Knauf will fund the costs of resolving the claims, excluding legal fees. L&W Supply estimates that its gross liability for resolving claims relating to wallboard manufactured by Knauf Plasterboard (Tianjin) Co. is approximately \$710,000.

**Table of Contents****COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS****Compensation Discussion and Analysis****Named Executive Officers**

Our Compensation Discussion and Analysis describes our executive compensation philosophy and programs which are governed by the Compensation and Organization Committee of our Board, or the Committee. The Compensation Discussion and Analysis includes 2015 total compensation for our named executive officers listed below:

<b>Named Executive Officer</b>	<b>Title</b>
James S. Metcalf	Chairman, President and Chief Executive Officer
Matthew F. Hilzinger	Executive Vice President and Chief Financial Officer
Dominic A. Dannessa	Executive Vice President, Chief Operations and Innovation Officer
Stanley L. Ferguson <sup>(1)</sup>	Executive Vice President, General Counsel and Secretary
Christopher R. Griffin <sup>(2)</sup>	Executive Vice President and Chief Operating Officer
Jennifer F. Scanlon	Executive Vice President; President, International; President L&W Supply Corporation

Edgar Filing: USG CORP - Form DEF 14A

- (1) Mr. Ferguson retired from the Company effective December 31, 2015.
- (2) Mr. Griffin ceased to be an executive officer as of July 31, 2015.

36 **USG Corporation** 2016 Proxy Statement

**Table of Contents**

**Executive Summary**

Our executive compensation program is designed to attract, motivate, engage and retain talented executives and align their interests with those of stockholders. We use a combination of base salary, annual and long-term incentive awards, retirement and other benefits and limited perquisites to link executive pay with our financial and operating objectives. Our strategy, called the Plan to Win, has three pillars: Strengthening Our Core Businesses, Diversifying Our Earnings, and Differentiating Our Products and Services Through Innovation.

Our compensation program for executive officers, including our named executive officers, drives the achievement of our Plan to Win. The program places the greatest emphasis on performance-based incentives. Nearly 86% of our Chairman, President and CEO's target total 2015 pay mix, and more than 72% of the average target total 2015 pay mix of our other named executive officers, excluding any one-time special grants, was at risk, and more than half is in stock-based compensation to create alignment with stockholders.

**Chairman, President & CEO 2015 Target Pay Mix**

**Other NEOs Average 2015 Target Pay Mix <sup>(1)</sup>**

(1) Excluding any one-time special grants.

**Table of Contents***2015 Performance and Executive Compensation*

In 2015, we continued to make progress on all three strategic priorities of our Plan to Win. The annual highlights include:

<b>Strengthening Our Core Businesses</b>	Total operating profit of \$381 million, more than double 2014 Expanded operating margins in all of our core businesses Strong cost performance with SG&A below 2014 and 2013 levels L&W same store sales were up 6% and operating profit was up 69% year-on-year
<b>Diversifying Our Earnings</b>	We completed our first full calendar year with USG Boral Building Products, or UBBP, our 50/50 strategic joint ventures with Boral Limited, which generated \$48 million in equity method income for us in 2015
<b>Differentiating Our Products and Services Through Innovation</b>	Introduction of over 25 new products, including four high-performance ceilings products and our structural panel line, which is seeing record sales and profits

Our improved operational results in 2015 reflect management's continued focus on growing our businesses, increasing operating margins and controlling costs. The cost reductions we have implemented over the last several years contributed to our improved operating results. We also continue to focus on operational excellence with near-record performance in safety, quality, customer satisfaction and operating efficiency.

Compensation for 2015 for our named executive officers reflects the improvement in our results and the achievement of key performance metrics as discussed below.

**Base Salary** In 2015, we increased salaries for our named executive officers, as well as all other salaried employees, to account for our named executive officers' expanded responsibilities, individual performance, internal equity and/or retention considerations. The increase for our Chief Executive Officer was approximately 5.2%, and the average increase for the other named executive officers was approximately 4.6%.

**Annual Incentive Awards** 50% of the annual incentive award opportunity is based on the achievement of the adjusted net earnings threshold for 2015 set by the Committee. The balance of the award opportunity is based on the achievement of annual operating and financial objectives, or Focus Targets. Annual incentive awards for our named executive officers in 2015 ranged from 95.5% to 121.5% of target due to our exceeding the adjusted net earnings and Focus Target thresholds, as discussed below. For services performed in 2015, we gave our executive officers currently employed by us the option of receiving up to 25% of their net annual incentive award in shares of our common stock.

*Long-Term Incentive Awards* Annual equity awards granted in 2015 were comprised of market share units and performance shares. In 2013, the Committee replaced stock options and restricted stock units with market share units for our annual grants for the reasons discussed below under

38 **USG Corporation** 2016 Proxy Statement

**Table of Contents**

Elements of Total Compensation Long-Term Incentive . The entire annual long-term incentive award granted to an executive is now at risk and performance-based, as discussed below. The portion of the market share units awarded in 2013 that were earned as of December 31, 2015 resulted in a 77% payout percentage, while the performance shares granted in 2013 vested at 0% of target. In addition to the annual long-term incentive awards granted to all participants, a small number of executives who received promotions during the year were awarded one-time special grants consisting of time-based restricted stock units.

*Compensation Governance*

Our executive compensation practices include governance features that support our pay-for-performance philosophy, including:

the Committee is comprised solely of independent directors with whom stockholders may communicate as discussed under Communications with Directors on page 27 of this proxy statement;

the Committee retained Willis Towers Watson as its independent compensation consultant;

the Committee has reviewed compensation-related risk with management and Willis Towers Watson and concurs with management's conclusion that our compensation programs do not create risks that are reasonably likely to have a material adverse effect on us;

long-term incentive awards are subject to double-trigger vesting upon a change in control, beginning with the 2013 grants, as discussed below; and

all Employment and Change in Control Severance Agreements entered into since 2012 do not contain provisions providing for modified tax gross-ups or additional service and age credits under our retirement plans.

These governance practices are complemented by compensation program designs that align the programs with stockholder interests and

encourage management not to take excessive risks, including:

stock ownership guidelines for our executive officers and non-employee directors, as described on pages 53 and 77, respectively, of this proxy statement;

compensation recoupment, or clawback, provisions that allow our Board to recoup excess incentive compensation paid to an executive officer if our financial statements are restated due to fraud or intentional wrongdoing of the executive officer;

a limit on the payout under the annual Management Incentive Program to a maximum of two times the par, or target, incentive award;