USG CORP
Form DEF 14A
March 30, 2017

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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

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):

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(1) Amount Previously Paid:

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USG Corporation
550 West Adams Street
Chicago, Illinois 60661

Founded in 1902
March 30, 2017

Dear Fellow Stockholder:

It is a pleasure to invite you to the 2017 USG Corporation annual meeting of stockholders. The meeting will be held at 9:00 a.m., Chicago time, on Wednesday, May 10, 2017 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 contains instructions on how to access the proxy materials over the Internet and 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. If you hold shares through a broker (i.e., in street name), you have the right to direct your broker how to vote your shares. **Brokers may not vote your shares on any matter other than the ratification of the appointment of our auditors, in the absence of specific voting instructions from you. Please contact your broker directly if you have questions about how to provide such instructions.**

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

Sincerely,

Jennifer F. Scanlon
President and Chief Executive Officer

Steven F. Leer
Non-Executive Chairman of the Board

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550 West Adams Street
Chicago, Illinois 60661-3676

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

When:
Wednesday, May 10, 2017 at 9:00 a.m., Chicago Time

Where:
USG Corporate Headquarters
550 West Adams Street,
Chicago, Illinois 60661-3676

Items of Business:

1. to elect three directors for a three-year term;
2. to ratify the Audit Committee s appointment of Deloitte & Touche LLP as our independent registered public accountants for the fiscal year ending December 31, 2017;
3. 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 and flexible;
4. to approve, by advisory vote, the compensation of our named executive officers;
5. to recommend, by advisory vote, the frequency of future votes to approve the compensation of our named executive officers; and
6. to transact any other business that may properly come before the meeting or any adjournment or postponement thereof.

Who Can Vote:

Only stockholders of record at the close of business on March 13, 2017 will be entitled to vote at the annual meeting.

YOUR VOTE IS IMPORTANT

Brokers may not vote your shares on any of the matters being presented at the annual meeting, other than the ratification of the appointment of our independent auditor, in the absence of specific voting instructions from you. Please contact your broker directly if you have questions about how to provide such instructions. 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.

Even if you plan to attend the meeting, please vote as soon as possible using one of the following methods:

By Telephone: In the U.S. or Canada, you can vote your shares toll-free by calling 1-800-690-6903.

By Internet: You can vote your shares online at **www.proxyvote.com**

By Mail: You can vote by mail by completing, dating, and signing your proxy card or voting instruction form and returning it in the postage-paid envelope.

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Meeting Admissions:

An admission ticket (or other proof of stock ownership) and a form of photo identification will be required for admission to the annual meeting. In addition, if you are not a stockholder of record but hold shares through a broker, bank or other nominee (i.e., in street name), you will be required to provide proof of beneficial ownership as of the Record Date. See Annual Meeting Information beginning on page 71 for details.

Date of Mailing:

This proxy statement and the accompanying proxy were first made available to our stockholders on or about March 30, 2017.

Important Notice Regarding the Availability of the Proxy Materials for the Stockholder Meeting to be held on May 10, 2017

This proxy statement and our 2016 annual report on Form 10-K are available at www.proxyvote.com.

By order of the Board of Directors,

Michelle M. Warner
Senior Vice President, General Counsel
and Corporate Secretary
March 30, 2017

SUMMARY OF 2017 PROXY STATEMENT

This summary highlights selected information in this Proxy Statement and does not contain all of the information that you should consider in deciding how to vote. Please read the complete proxy statement carefully before voting.

ANNUAL MEETING INFORMATION

Time and Date	Location	Record Date
9:00 a.m., Chicago time, on Wednesday, May 10, 2017	USG Corporation Headquarters 550 West Adams Street Chicago, Illinois 60661-3676	March 13, 2017

AGENDA AND VOTING RECOMMENDATIONS

Proposal	Board Recommendation	Page
Election of Three Directors	FOR each nominee	12
Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accountants for 2017	FOR	30
Approval of the Committee Amendment	FOR	33
Say-on-Pay: Advisory vote on compensation of our named executive officers	FOR	35
Say-on-Frequency: Advisory vote on frequency of future advisory votes on compensation of our named executive officers	EVERY YEAR	66

BUSINESS HIGHLIGHTS

Our Company produced excellent financial and operating results in 2016 that position us well for 2017 and beyond. The annual highlights include:

- Retiring $1.1 billion in debt and achieving a leverage ratio within our target range
- Completing the disposition of our distribution business, L&W Supply, for $675 million, allowing us to focus on core manufacturing operations
- Expanding operating margins in each of our segments

Generating $49 million in equity method income for us by USG Boral Building Products, or UBBP, our 50/50 strategic joint ventures with Boral Limited that operate in Asia, Australasia and the Middle East

Launching our multi-year efforts to reinvest in our business through advanced manufacturing

Growing our glass-mat portfolio and launching a new line of high performance ceilings and several new flooring products

USG Corporation

Election of Directors

The Board recommends a vote **FOR** the election of each of the nominees for director. See page 14 for further information about our director nominees.

Name	Director Since	Independent	Position	Other Public Directorships	USG Board Committees
MATTHEW CARTER, JR.	September 2012		Former President and Chief Executive Officer of Inteliquent, Inc.	None	Compensation and Organization Governance
RICHARD P. LAVIN	November 2009		Former President and Chief Executive Officer of Commercial Vehicle Group, Inc.; Former Group President of Caterpillar, Inc.	ITT Corporation and Allison Transmission Holdings, Inc.	Compensation and Organization (Chair) Finance
JENNIFER F. SCANLON	September 2016		President and Chief Executive Officer of USG Corporation	None	None

RECENT BOARD DEVELOPMENTS

New Chairman Steven F. Leer, formerly our Lead Director, was appointed Non-Executive Chairman of the Board in November 2016.

New Director Ms. Scanlon was added to our Company s Board in September 2016 in connection with her appointment as Chief Executive Officer-Elect of our Company in advance of the retirement of Mr. Metcalf, our former Chairman, President and Chief Executive Officer.

GOVERNANCE HIGHLIGHTS

Our 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.

Independence	Eight of our nine directors are independent
	Our Chairman is an independent director
	Our CEO is the only management director
	All of our Board committees are comprised of only independent directors and have the ability to hire third-party advisors
Executive Sessions	The independent directors regularly meet in executive sessions
	The Non-Executive Chairman presides at executive sessions of the independent directors
Board Oversight of Risk Management	Our Audit Committee annually reviews our guidelines and policies that govern the process by which we assess and manage our exposure to risk
	Our Compensation and Organization Committee reviews the annual compensation risk assessment and retains an independent compensation consultant
	We have recoupment or clawback provisions to recover certain executive pay
Stock Ownership Requirements	Our non-employee directors and executives are subject to minimum stock ownership requirements designed to align their interests with those of stockholders

Ratification of appointment of independent registered public accountants for 2017

The Board recommends a vote **FOR** the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accountants for 2017.
See page 30 for further information.

In accordance with its charter, the Audit Committee has appointed Deloitte & Touche LLP as our independent registered public accountants for 2017. The Audit Committee requests that stockholders ratify this appointment. If stockholders do not ratify the appointment, the Audit Committee will consider whether it should appoint another independent registered public accounting firm. Deloitte & Touche LLP has been examining our financial statements since 2002.

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Board of Directors and Corporate Governance | Audit Committee Matters | Finance Committee Matters | Compensation of Executive Officers | Securities Ownership | Other Information

Approval of the Committee Amendment

The Board recommends a vote **FOR** the approval of the Committee Amendment.
See page 33 for further information.

Due to historical reasons, our Restated Certificate of Incorporation requires the Board to maintain a Finance Committee. The Board has determined that it would like the flexibility to eliminate the Finance Committee in the future or to have it meet on an ad-hoc basis as necessary and is requesting that stockholders approve an amendment to our Restated Certificate of Incorporation allowing it this flexibility. 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 mandatory nature of the Finance Committee could simplify our governance structure and provide for a more efficient and flexible organizational decision-making process. If eliminated, many responsibilities of the Finance Committee would be assumed by the full Board, while the remainder would be assumed by other committees of the Board.

Say-on-Pay: Advisory vote regarding the compensation of our named executive officers

The Board recommends a vote **FOR** the advisory vote approving the compensation of our named executive officers.
See page 35 for further information.

We are asking our stockholders to approve, on an advisory basis, the compensation of our named executive officers (say-on-pay) as described in the Compensation Discussion and Analysis section beginning on page 36 and the Compensation Tables section beginning on page 50. Our compensation philosophy is designed to attract, motivate, engage and retain talented executives and align their interests with those of stockholders.

Say-on-Frequency: Advisory vote regarding frequency of future advisory votes on the compensation of our named executive officers

The Board recommends a vote to conduct future advisory votes on the compensation of our named executive officers
EVERY YEAR.
See page 66 for further information.

We are asking our stockholders to approve, on an advisory basis, the frequency of our future stockholder say-on-pay advisory votes. This advisory vote is commonly referred to as a say-on-frequency vote. Under this proposal, our stockholders may indicate whether they would prefer to have an advisory vote on executive compensation every year, every two years, or every three years, or may abstain from voting on this proposal. The Board recommends a vote to conduct future advisory votes on the compensation of our named executive officers every year.

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 operating and financial objectives while building the long-term value of our enterprise. Annual incentive awards for our named executive officers in 2016, other than Mr. Metcalf, our former Chairman, President and Chief Executive Officer, ranged from 176% to 187% of target due to our exceeding the adjusted net earnings and Focus Target thresholds, as discussed in the Compensation Discussion and Analysis section beginning on page 36. While our operational performance in 2016 was very strong as evidenced by the annual incentive awards, our stock performance over the most recent vesting period was below target and as a result the market share units granted in 2014 (as measured by our stock price) vested at 88% of target and the performance shares granted in 2014 (as measured by our total stockholder return compared to certain other companies) were forfeited.

Our executive compensation program places the greatest emphasis on performance-based incentives as shown below. In September 2016, we announced that Mr. Metcalf had decided to retire from his position as President and Chief Executive Officer and resign as Chairman of the Board, effective October 31, 2016. In connection with Mr. Metcalf s retirement and in accordance with our management succession plan, Ms. Scanlon became our Company s President and Chief Executive Officer, effective November 1, 2016. Accordingly, the 2016 target pay mix shown below for Ms. Scanlon reflects compensation for only two months out of the year as President and Chief Executive Officer in addition to the ten months prior to her promotion. In February 2017, the Board increased Ms. Scanlon s base salary and also granted her a long-term equity award which resulted in the portion of Ms. Scanlon s compensation for 2017 that is performance-based to be increased, in accordance with its historical philosophy of having a substantial portion of the President and Chief Executive Officer s compensation at risk.

SCANLON 2016 TARGET PAY MIX[1]

71% Performance Based

SCANLON 2017 TARGET PAY MIX

Annual Incentive **17%**

84% Performance Based

OTHER NEOS AVERAGE 2016 TARGET PAY MIX[1][2]

70% Performance Based

(1) Excluding any one-time special grants.
(2) Excludes Mr. Metcalf.

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BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Election of Directors

The Board recommends a vote **FOR** the election of each of the nominees for director. See page 14 for further information about our director nominees.

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 2018 and 2019.

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) leave the position vacant until a later date, or (iii) 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.

BOARD OF DIRECTORS

The Governance Committee believes that the Board, as currently constituted, is well-balanced and that it fully and effectively addresses our Company s needs. 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 help the Board assist 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 our business.

Seven of our nine directors currently serve as a director of other public companies, which provides them with diverse experiences that can enhance their contribution to our Board governance practices.

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.

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BOARD OF DIRECTORS

Age

Tenure

Gender and Ethnic Diversity

COLLECTIVE SKILLS MATRIX

	Jose Armario	Thomas A. Burke	Matthew Carter Jr.	Gretchen R. Haggerty	William H. Hernandez	Brian A. Kenney	Richard P. Lavin	Steven F. Leer	Jennifer F. Scanlon
Financial/Accounting									
Operations									
IT									
International Business									
Engineering									
Sales/Marketing									
Cyclical Business Experience									
HR/Compensation									

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NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

The directors listed below have been nominated for re-election to the Board for a three-year term expiring in 2020.

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

MATTHEW CARTER JR.

Former President and Chief Executive Officer of Inteliquent, Inc.

Age: 56

Director Since: September 2012

USG Committees: Compensation and Organization and Governance

Other Public Directorships: None

Other Affiliations: Trustee of the Gould Academy and the Bishop s School

Qualifications and Experience:

Mr. Carter served as President and Chief Executive Officer and a director of Inteliquent, Inc., a publicly-traded provider of voice telecommunications services, from June 2015 until February 2017 when Inteliquent, Inc. was acquired. 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 prior thereto. He is a former director of Apollo Education Group, Inc. and Inteliquent, Inc. and has significant marketing, technology and international experience, including previous management oversight for all of Inteliquent, Inc. s operations.

RICHARD P. LAVIN

Former President and Chief Executive Officer of Commercial Vehicle Group, Inc. and Former Group President of Caterpillar, Inc.

Age: 65

Director Since: November 2009

USG Committees: Compensation and Organization (Chair) and Finance

Other Public Directorships: ITT Corporation and Allison Transmission Holdings, Inc.

Other Affiliations: None

Qualifications and Experience:

Mr. Lavin served as President, Chief Executive Officer and a director 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. He 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. These positions provided Mr. Lavin with experience managing cyclical, global manufacturing businesses, and he also has a diverse legal and human resources background.

JENNIFER F. SCANLON

President and Chief Executive Officer of USG Corporation

Age: 50

Director Since: September 2016

USG Committees: None

Other Public Directorships: None

Other Affiliations: Director of the Chicago Council on Global Affairs and Shore Community Services, Inc.

Qualifications and Experience:

Ms. Scanlon has served as our President and Chief Executive Officer since November 2016. Prior thereto she held a variety of positions at USG, including Executive Vice President beginning in March 2016 and President, International beginning in September 2010. She also served as the chairman of the board of USG Boral Building Products from its inception in February 2014 until October 2016 and President of L&W Supply Corporation from July 2015 until its sale to ABC Supply in October 2016. Ms. Scanlon has extensive international experience from her leadership of USG s international joint ventures and broad operational and strategic experience from her previous assignments at USG and with a management consulting firm that specialized in increasing profits through operational improvement.

DIRECTORS CONTINUING IN OFFICE

The following directors are continuing in office for terms expiring in 2018:

JOSE ARMARIO

Retired Executive Vice President of Worldwide Supply Chain, Development and Franchising of McDonald s Corporation

Age: 57

Director Since: January 2007

USG Committees: Audit and Compensation and Organization

Other Public Directorships: Avon Products, Inc.

Other Affiliations: Member of the President s Council of the University of Miami and the Governing Council of Advocate Good Samaritan Hospital, and Director for Receptions for Research: The Greg Olsen Foundation

Qualifications and Experience:

Mr. Armario 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. Prior thereto he served as Group President, McDonald s Canada and Latin America. He has extensive global consumer products marketing, branding, supply chain and Latin American markets expertise.

GRETCHEN R. HAGGERTY

Retired Executive Vice President and Chief Financial Officer of United States Steel Corporation

Age: 61

Director Since: May 2011

USG Committees: Audit and Finance

Other Public Directorships: Teleflex Incorporated

Other Affiliations: Director of the Strategic Investment Fund and the United Way of Southwestern Pennsylvania

Qualifications and Experience:

Ms. Haggerty 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 ten years. In addition to her financial expertise she also has substantial international and cyclical business experience.

WILLIAM H. HERNANDEZ

Retired Senior Vice President, Finance and Chief Financial Officer of PPG Industries, Inc.

Age: 68

Director Since: September 2009

USG Committees: Audit (Chair) and Finance

Other Public Directorships: Albemarle Corporation, Black Box Corporation and Northrop Grumman Corporation

Other Affiliations: Director of the Keystone chapter of the National Association of Accountants and Director of the Ligonier Camp & Conference Center

Qualifications and Experience:

Mr. Hernandez 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, after having served as Chief Financial Officer for more than 15 years. He is a former director of Eastman Kodak Company and has significant financial and cyclical business experience.

The following directors are continuing in office for terms expiring in 2019:

THOMAS A. BURKE

President and Chief Executive Officer of Modine Manufacturing Company

Age: 59

Director Since: September 2013

USG Committees: Audit and Governance

Other Public Directorships: Modine Manufacturing Company

Other Affiliations: Director of the National Association of Manufacturers and Chairman of the Racine County Workforce Development Board

Qualifications and Experience:

Mr. Burke has been President and Chief Executive Officer of Modine Manufacturing Company, a publicly-traded manufacturer of thermal management systems and components, since April 2008. He has experience managing cyclical businesses and international operations and has valuable insights regarding the manufacturing industry from his service on the board of the National Association of Manufacturers.

BRIAN A. KENNEY

Chairman, President and Chief Executive Officer of GATX Corporation

Age: 57

Director Since: February 2011

USG Committees: Finance (Chair) and Governance

Other Public Directorships: GATX Corporation

Other Affiliations: Member of the Board of Trustees of the Shedd Aquarium in Chicago

Qualifications and Experience:

Mr. Kenney is Chairman, President and Chief Executive Officer of GATX Corporation, a publicly-traded global railcar lessor, and has held this position since 2005. During his tenure, he 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 that volatile economic conditions present for our business.

STEVEN F. LEER, Non-Executive Chairman

Retired Chairman and Chief Executive Officer of Arch Coal, Inc.

Age: 64

Director Since: June 2005

USG Committees: Governance (Chair) and Compensation and Organization

Other Public Directorships: Cenovus Energy Inc. and Norfolk Southern Corporation

Other Affiliations: Director of Parsons Corporation

Qualifications and Experience:

Mr. Leer 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. He is a former director of the Greater St. Louis Area Boy Scouts of America and the National Association of Manufacturers and a former member of the Board of Regents of Washington University in St. Louis. 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 North America from his service on the boards of Cenovus Energy Inc., Norfolk Southern Corporation and Parsons Corporation.

NOMINATION PROCESS AND CRITERIA FOR BOARD MEMBERSHIP

The Governance Committee recommends to the Board director candidates for nomination and election at the annual meeting or for appointment to fill vacancies. In recognition of the fact that the selection of qualified directors is complex and crucial to our long-term success, the Governance Committee annually reviews with the Board the skills and characteristics required of our directors, considering current Board composition and the current needs of our Company. Our process for reviewing and selecting 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, our Company and our stockholders. Desired qualities for our directors, including those recommended for nomination by our stockholders, include high-level leadership experience in business or administrative activities, breadth of knowledge about issues affecting our Company, 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. 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 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 Governance 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. We do not have a formal policy with regard to the consideration of diversity in identifying directors. However, as part of our commitment to diversity as a core value and in our efforts to attract and retain a diverse workforce as well as to enhance our relationship with an increasingly diverse customer and employee base, the Governance Committee 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.

Our By-laws and Corporate Governance Guidelines provide that no non-employee director may serve on the Board beyond the first annual meeting of stockholders following the director s 72nd birthday, unless the Board determines otherwise.

STOCKHOLDER NOMINEE RECOMMENDATIONS

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 2018 annual meeting of stockholders is described under the heading Deadline for Stockholder Proposals on page 70 of this proxy statement.

DIRECTOR INDEPENDENCE

The Board has determined that each of our directors, except Ms. Scanlon, our President and Chief Executive Officer, is independent as defined by our By-laws and Corporate Governance Guidelines and the NYSE listing standards. Our Corporate Governance Guidelines provide that at least 80% of our directors should be independent in accordance with the standards of the NYSE and our By-laws. The listing standards of the NYSE also require that a majority of our directors and all members of our Audit, Compensation and Organization and Governance Committees be independent. A director is considered independent only if the Board determines that he or she has no direct or indirect material relationship with our Company. Our By-laws further provide that members of legal, accounting or auditing firms providing services to us are not independent.

The Board makes this determination annually based upon information provided by each of our directors and the recommendation of the Governance Committee. In making the most recent determination, the Board considered the following transactions, relationships and arrangements involving the directors:

Mr. Carter was an executive officer and a director of Inteliquent, Inc., which agreed, prior to the time Mr. Carter was associated with Inteliquent, to sublease office space from us;

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

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

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

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

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

ROLE AND RESPONSIBILITIES OF OUR BOARD

The Board acts as the ultimate decision-making body of our Company and advises and oversees management, who are responsible for the day-to-day operations and management of our Company. In carrying out its responsibilities, the Board reviews and assesses our Company s long-term strategy and its strategic, competitive and financial performance.

In 2016, the Board oversaw the sale of L&W Supply and the redemption of $1.1 billion in debt. These activities, as well as our Company s operating performance, laid the foundation for return of capital to stockholders in the form of a $250 million share repurchase program, as announced in February 2017. In addition, in 2016 the Board oversaw the transition of the Chairman and the President and Chief Executive Officer positions in connection with Mr. Metcalf s retirement on October 31, 2016.

BOARD LEADERSHIP

Our Corporate Governance Guidelines provide 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. In connection with Mr. Metcalf s retirement as Chairman, President and Chief Executive Officer on October 31, 2016, the Governance Committee and the Board discussed board leadership alternatives before deciding to separate the Chairman and Chief Executive Officer roles and appoint Ms. Scanlon as our President and Chief Executive Officer and Mr. Leer as our Non-Executive Chairman of the Board. The Board determined that it was appropriate to separate these roles at this time in order to allow Ms. Scanlon to focus primarily on her new responsibilities as President and Chief Executive Officer while also providing the benefit of independent leadership to enhance the effectiveness of the Board s oversight role. Our Chief Executive Officer is responsible for day-to-day leadership and for setting the strategic direction of the Company, while the Non-Executive Chairman of the Board presides over Board meetings, including non-management and executive sessions. Mr. Leer s tenure as Lead Director of the Board from 2012 until his appointment as Non-Executive Chairman, as well as his experience serving as Chairman of other publicly-traded companies, also provides him with the experience and expertise to be the person who generally leads discussions of matters considered by the Board.

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Summary of 2017 Proxy Statement	**Board of Directors and Corporate Governance**	Audit Committee Matters	Finance Committee Matters	Compensation of Executive Officers	Securities Ownership	Other Information

COMMITTEES OF THE BOARD OF DIRECTORS

The following table indicates the current members of each of the Board s four standing committees:

Name	Audit	Compensation and Organization	Finance	Governance
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

Each committee meets periodically throughout the year, reports its actions and recommendations to the Board, receives reports from management, annually evaluates its performance and has the authority to retain outside advisors at its discretion. 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 primary responsibilities of each committee are summarized below and set forth in more detail in each committee s written charter, which can be found on our Company s website at www.usg.com.

AUDIT COMMITTEE

Independent Committee Members:

William H. Hernandez
Jose Armario
Thomas A. Burke
Gretchen R. Haggerty

6 meetings in 2016

Audit Committee Roles and Responsibilities:

- Assist 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.
- Review our risk assessment and risk management policies.
- Select and employ 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 each member of the Audit Committee is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission.

COMPENSATION AND ORGANIZATION COMMITTEE

Independent Committee Members: Richard P. Lavin Jose Armario Matthew Carter, Jr. Steven F. Leer 8 meetings in 2016	Compensation and Organization Committee Roles and Responsibilities: Review and make recommendations to the Board regarding management organization, succession and development programs. Review and approve, or recommend for approval, the election of corporate officers and their salaries, incentive compensation and bonus awards. Make the decisions required by a committee of the Board under all stock and deferred stock plans. Approve and report to the Board changes in salary ranges for all other major position categories and, as outlined in its charter, changes in our retirement, group insurance, investment, management incentive compensation and bonus and other benefit plans. Review, and report 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 an outside director as defined by the Internal Revenue Code.

GOVERNANCE COMMITTEE

Independent Committee Members: Steven F. Leer Thomas A. Burke Matthew Carter, Jr. Brian A. Kenney 4 meetings in 2016	Governance Committee Roles and Responsibilities: Make recommendations to the Board concerning the size and composition of the Board and its committees. Recommend nominees for election or reelection as directors. Consider other matters pertaining to Board membership, such as the retirement policy and compensation of non-employee directors. Evaluate Board performance and assess the adequacy of, and compliance with, our Corporate Governance Guidelines and Code of Business Conduct.

FINANCE COMMITTEE

Independent Committee Members:	Finance Committee Roles and Responsibilities: Provide review and oversight of, and make recommendations to the Board regarding, material financing requirements and funding programs, including debt issuances and repurchases, dividend policy and

Brian A. Kenney Gretchen R. Haggerty William H. Hernandez Richard P. Lavin 4 meetings in 2016	acquisitions, divestitures and significant transactions affecting our capital structure or ownership. Review, and make recommendations to the Board regarding, the funding of our qualified retirement plans in excess of minimum amounts required by law and authorize necessary or desirable changes in actuarial assumptions for funding those retirement plans. As discussed under Proposal 3 Approval of Committee Amendment on page 33 of this proxy statement, our Restated Certificate of Incorporation 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 and flexible. If eliminated, many responsibilities of the Finance Committee would be assumed by the full Board, while the remainder would be assumed by other committees of the Board.

RISK OVERSIGHT

The Audit 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 2017 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;
- 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 2017 and the eight prior years, allow the Board to clawback payments made to them under certain circumstances;
- we use 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 action intended to 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.

STRATEGY

At its regularly-scheduled meeting in September of each year, our full Board reviews our Company s near- and long-term strategies in detail. The meeting includes presentations by and discussions with senior management regarding strategic initiatives for each business unit. The Board remains involved in strategic planning throughout the year, engaging with management to review progress of and challenges to our Company s strategies, and to approve specific initiatives. In 2016, our Board and Committees devoted significant additional time throughout the year to review and discuss the sale of L&W Supply and the repayment of $1.1 billion of debt. Individual Board committees also consider strategic matters that fall within their areas of focus and report to the full Board at regularly scheduled meetings. Our independent directors also met in executive sessions without management present at each regularly scheduled Board meeting in 2016, during which strategy was discussed as needed.

STOCKHOLDER ENGAGEMENT

We conduct extensive investor outreach throughout the year. These efforts help ensure that management and the Board understand and consider the issues that matter most to our stockholders and allow us to effectively address them. Management regularly attends investor conferences and holds one-on-one meetings and calls with investors, and also has the opportunity to directly interact with investors and analysts during our quarterly earnings conference calls.

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(s) 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 of our directors serving at the time attended the 2016 annual meeting, other than one director who had a previously scheduled commitment.

BOARD OF DIRECTORS PROCESSES

CORPORATE GOVERNANCE DOCUMENTS

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. 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 incorporate such information.

MEETINGS OF THE BOARD OF DIRECTORS

The Board held eight meetings, and its committees held a total of 22 meetings, during 2016. Each director attended at least 75% of the meetings of the Board and the committees on which he or she served and that he or she was required to attend.

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 SELF-EVALUATIONS

We are committed to maintaining an effective Board that represents the best interests of our Company and our stockholders. In order to assess the effectiveness of the Board and its committees, each director annually completes a survey in which he or she provides suggestions and feedback to the Governance Committee and the Board. This process allows directors to provide anonymous input on, among other things, Board education topics, planning and oversight, Board structure and operation, the Board s relationship with management and Committee structure and operations. The Governance Committee, as well as the full Board, discuss these results in executive session and use them to address areas where the Board feels it can improve.

DIRECTOR ORIENTATION AND CONTINUING EDUCATION

Our orientation programs familiarize new directors with our Company s businesses, strategies, and policies, and assist new directors in developing the skills and knowledge required for their service on the Board. Throughout the year we also present educational sessions to the Board and its committees to assist our directors in deepening their knowledge of our Company and maintaining skills and knowledge necessary or appropriate for the performance of their responsibilities. These programs include internally-developed materials and presentations as well as programs presented by third parties.

MANAGEMENT SUCCESSION PLANNING

The Compensation and Organization Committee has primary responsibility for helping the Board develop and evaluate potential candidates for executive positions and for overseeing the development of management succession plans. The Compensation and Organization Committee reviews its succession plan with the Board at least annually, addressing both a long-term plan and the possibility of an emergency situation. In conducting these reviews, the Board considers, among other factors, our overall business strategy, organizational and operational needs, leadership and management potential and competitive challenges. These reviews provide the Compensation and Organization Committee and other Board members with information regarding the performance and potential of our management team that can be taken into account when executive compensation decisions are made. Potential leaders are exposed and visible to Board members through formal presentations and informal events. The Compensation and Organization Committee is also regularly updated on key talent indicators for the overall workforce, including diversity, recruiting and development programs.

DIRECTOR COMPENSATION

The Governance Committee is charged with annually reviewing and making recommendations to the Board regarding director compensation. In making its recommendations, the Governance Committee considers the significant time committed by our directors to the performance of their duties as directors, the high-level leadership experience and special competencies our directors contribute to our Company, third party data, the director compensation practices of a comparator group of companies, our Company s performance and ways in which to further align our Board s interests with those of our stockholders. Ms. Scanlon, our President and Chief Executive Officer, and Mr. Metcalf, our former Chairman, President and Chief Executive Officer, did not receive compensation from us for their service as directors. Their compensation is shown in the Summary Compensation Table on page 50 of this proxy statement.

CASH COMPENSATION

We pay our non-employee directors an annual cash retainer of $80,000, payable quarterly. In 2016, we paid additional cash retainers of $20,000 to the chair of our Audit Committee, $15,000 to the chair of our Compensation and Organization Committee, $10,000 to the chairs of our Finance and Governance Committees and $20,000 to Mr. Leer for his service as the Board s Lead Director, in each case payable in equal quarterly installments. We also reimburse non-employee directors for out-of-pocket expenses they incur in connection with attending meetings and other Company activities.

Effective for 2017, Mr. Leer will receive an annual cash retainer of $125,000, payable quarterly, for his service as Non-Executive Chairman.

ANNUAL GRANT

On December 31, 2016, each of our non-employee directors received an annual grant of $120,000 payable in shares of our common stock.

DEFERRAL OF COMPENSATION

Directors have the option to defer all or a part of their compensation in the form of deferred stock units that will increase or decrease in value in direct proportion to the market value of our common stock and will be paid in cash or shares of common stock, at the director s option, following termination of Board service, except that deferred stock units earned prior to January 1, 2008 will only be paid in cash. The amounts in the Fees Earned or Paid in Cash column of the 2016 Director Compensation table include the amounts of compensation deferred by our directors into deferred stock units as described in footnote 1 to the table.

2016 DIRECTOR COMPENSATION

The table below reflects the compensation we paid to our non-employee directors for 2016.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(1)(2)	All Other Compensation ($)(3)	Total ($)
Jose Armario	$80,000	$120,000	$2,000	$202,000
Thomas A. Burke	80,000	120,000		200,000
Matthew Carter Jr.	80,000	120,000		200,000
Gretchen R. Haggerty	80,000	120,014		200,014
William H. Hernandez	100,000	120,000		220,000
Brian A. Kenney	90,000	120,014		210,014
Richard P. Lavin	95,000	120,014		215,014
Steven F. Leer	110,000	120,000	50	230,050

(1) Mr. Armario deferred his annual cash retainer into 3,027.2197 deferred stock units and Mr. Leer deferred 80% of his annual cash retainer into 3,329.9417 deferred stock units, in each case pursuant to our Non-Employee Director Compensation Program. Messrs. Armario, Burke, Carter, Hernandez and Leer each deferred his annual stock grant into 4,114.5208 deferred stock units pursuant to the terms of our Non-Employee Director Compensation Program. Directors hold the number of deferred stock units shown in the Security Ownership of Directors and Executive Officers table on page 68 of this proxy statement. These deferred stock units are classified as liability awards for accounting purposes. The balances of liability awards are adjusted over the course of the year to reflect changes in the market value of our stock. The net impact of this accounting treatment in 2016 was to increase award balances by the following amounts: Mr. Armario, $332,827; Mr. Burke $41,096, Mr. Carter, $57,458; Mr. Hernandez, $89,862; and Mr. Leer, $374,895.

(2) Each of Ms. Haggerty and Messrs. Kenney and Lavin received his or her annual stock grant in shares of our common stock. They were each issued 4,115 shares based on the average of the high and low sales prices of a share of our common stock on December 30, 2016, the last trading day of the year. The amounts in this column for Ms. Haggerty and Messrs. Kenney and Lavin reflect the aggregate grant date fair value of the shares issued to them computed in accordance with FASB ASC Topic 718.

(3) Reflects matching contributions under the USG Foundation matching gift program. This program is generally available to our U.S. employees and to our directors. The USG Foundation matches up to 50% of donations made to eligible charitable organizations up to a maximum of $2,500 in matches per year for each individual. The amounts shown reflect matches for gifts that were made in 2015 but, due to administrative processing time, were paid by the USG Foundation in 2016.

STOCKHOLDER RIGHTS PLAN AND TRANSFER RESTRICTIONS IN OUR RESTATED CERTIFICATE OF INCORPORATION

RIGHTS PLAN

We have a stockholder rights plan that is intended to protect our substantial net operating losses, or NOL, carryforwards and related tax benefits. Under federal tax laws, we generally can use our NOLs and certain related tax credits to reduce ordinary income tax paid in our prior two tax years or on our future taxable income for up to 20 years, when they expire for such purposes. As of December 31, 2016, we had federal NOL carryforwards of approximately $923 million.

Our ability to use our NOLs could be substantially limited if we experience an ownership change, as defined under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, and the rights plan has been designed to help prevent such an ownership change. Under Section 382 of the Code, an ownership change occurs if, over a rolling three-year period, there has been an aggregate increase of 50 percentage points or more in the percentage of our common stock owned by one or more of our 5-percent stockholders (as determined under Section 382 of the Code). The rights plan provides that if any person becomes the beneficial owner (as defined in the Code) of 4.9% or more of our common stock, stockholders other than the triggering stockholder will have the right to purchase additional shares of our common stock at half the market price, thereby diluting the triggering stockholder; provided that stockholders whose beneficial ownership, as defined in Section 382 of the Code, exceeded 4.9% of our common stock outstanding on February 11, 2015 will not be deemed to have triggered the rights plan, so long as they do not thereafter acquire beneficial ownership of additional common stock other than in certain specified exempt transactions.

The rights will expire at the close of business on May 31, 2019, unless earlier redeemed or exchanged. The Board has the power to accelerate or extend the expiration date of the rights. The NOL protective provisions of the rights plan described above will be effective until the earliest of the close of business on (i) May 31, 2019, (ii) the date on which the Board determines that these provisions are no longer necessary for the protection of certain tax benefits because of the repeal of Section 382 of the Code, (iii) the first day of a taxable year as to which the Board determines that no tax benefits may be carried forward, or (iv) such other date as the Board determines that these provisions are no longer necessary for the preservation of tax benefits, which period is referred to as the Special Period. After the end of the Special Period, the triggering threshold for the rights issued pursuant to the rights plan will revert to 15% of our outstanding common stock and the definition of beneficial owner will revert to definitions that do not track Section 382 of the Code. At our 2016 annual meeting our stockholders ratified, on an advisory basis, the extension of the term of the rights plan and the NOL protective provisions described above.

A Board committee composed solely of independent directors reviews the rights plan at least once every three years to determine whether to modify the rights plan in light of all relevant factors. This review was most recently conducted in November 2015. The next review is required by the end of 2018.

RESTATED CERTIFICATE OF INCORPORATION

Our Restated Certificate of Incorporation also restricts certain transfers of our common stock and includes provisions intended to further protect the tax benefits of our NOL carryforwards. Subject to certain limited exceptions, these transfer restrictions restrict 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 group under Section 382 of the Code) owning 4.9% or more of our common stock. Any direct or indirect transfer attempted in violation of these transfer restrictions would be void as of the date of the prohibited transfer as to the purported transferee, and the purported transferee would not be recognized as the owner of the shares attempted to be owned in violation of the transfer restrictions for any purpose, including for purposes of voting and receiving dividends or other distributions in respect of that common stock, or in the case of options, receiving our common stock in respect of their exercise. These transfer restrictions are effective until the earliest of (i) the close of business on May 31, 2019, (ii) the repeal of Section 382 of the Code if the Board determines that these restrictions are no longer necessary or desirable for the preservation of tax benefits, (iii) the close of business on the first day of a taxable year as to which the Board determines that no tax benefits may be carried forward, or (iv) such other date as determined by the Board pursuant to the provisions described above.

TREATMENT OF BERKSHIRE HATHAWAY

Pursuant to a Shareholder s Agreement reached in 2006, Berkshire Hathaway and certain of its affiliates may acquire beneficial ownership of up to 50% of our voting stock on a fully-diluted basis without triggering the ownership thresholds in our Restated Certificate of Incorporation or the rights plan, and may acquire beneficial ownership of more than 50% of our voting stock on a fully-diluted basis without triggering the ownership thresholds in our Restated Certificate of Incorporation or the rights plan through an offer to purchase all of our common stock that remains open for at least 60 days, in each case subject to specified exceptions.

TRANSACTIONS WITH RELATED PERSONS

RELATED-PARTY TRANSACTIONS POLICY

In connection with our businesses, we enter into thousands of transactions every year involving thousands of customers. In order to conduct our business, 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.

Our Code of Business Conduct further 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.

EXECUTIVE OFFICERS AND OTHER EMPLOYEES

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. 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.

DIRECTORS

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 or for-profit, private 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 determine whether the affiliation or transaction reported impairs the director s independence and whether it is likely to adversely impact us. If the Governance 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 Governance 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 of the following factors:

- the amount involved in the transaction is less than $120,000;
- the director does not have a direct or indirect material interest in the transaction;
- 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.

For additional information regarding our transactions with companies of which certain of our non-employee directors are affiliated, see Director Independence above.

AGREEMENTS WITH BERKSHIRE HATHAWAY

SHAREHOLDER S AGREEMENT

Berkshire Hathaway beneficially owns approximately 30% of our common stock. In connection with the equity commitment agreement we entered into with Berkshire Hathaway in January 2006, we entered into a Shareholder s Agreement pursuant to which Berkshire Hathaway agreed that during the time that it owns our equity securities, it will be exempted from our stockholder rights plans, including our rights plan and the transfer restrictions in our Restated Certificate of Incorporation, 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.

REGISTRATION RIGHTS AGREEMENT

In November 2008, we issued $300 million aggregate principal amount of 10% Contingent Convertible Senior Notes due 2018 to affiliates of Berkshire Hathaway. The notes were called for redemption in November 2013 and March 2014 and we issued an aggregate of 26,315,790 shares of common stock to 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 and the notices of redemption issued with respect to the notes in November 2013 and March 2014 were approved by our Board.

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 2016 was approximately $38.3 million. In addition, we sell building products to subsidiaries of Berkshire Hathaway. The aggregate amount of these sales in 2016 was $15.4 million.

We purchase products in the ordinary course of business, principally insulation, from affiliates of Gebr. Knauf, which beneficially owns approximately 10% of our common stock. Those purchases aggregated approximately $1.9 million in 2016. We sold approximately $1.7 million of products to affiliates of Gebr. Knauf in 2016.

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, pursuant to which USG Ventures-Europe GmbH sold to such affiliate 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 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. Our Company 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 Gebr. Knauf, pursuant to which the Sellers sold to such affiliates 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 Gebr. Knauf.

We 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. We estimate that our gross liability for resolving outstanding claims relating to wallboard manufactured by Knauf Plasterboard (Tianjin) Co. is approximately $385,000.

AUDIT COMMITTEE MATTERS

Ratification of appointment of independent registered public accountants for 2017

The Board recommends a vote **FOR** the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accountants for 2017.

The Audit Committee is responsible for selecting and employing a firm of independent registered public accountants to audit our financial statements and internal control over financial reporting each year. The Audit Committee has appointed Deloitte & Touche LLP as our independent registered public accountants for 2017. Deloitte & Touche LLP has been examining our financial statements since 2002. The Audit Committee evaluates the performance of our independent registered public accountants, including the senior audit engagement team, each year and determines whether to reengage the current independent registered public accountants or consider other audit firms. The members of the Audit Committee believe that the continued retention of Deloitte & Touche LLP to serve as our independent registered public accountants is in the best interests of our stockholders.

The Audit Committee is requesting that stockholders ratify the appointment of Deloitte & Touche LLP. If stockholders do not ratify the appointment, the Audit Committee will consider whether it is appropriate to appoint another independent registered public accountant. One or more representatives of Deloitte & Touche LLP will be present at the annual meeting to respond to appropriate questions from stockholders, and they will have the opportunity to make a statement if they desire to do so.

The Board recommends a vote FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accountants for 2017.

AUDIT COMMITTEE REPORT

The Audit Committee assists the Board in fulfilling its responsibilities for effective corporate governance by overseeing our Company s accounting and financial reporting processes, the audits of our Company s financial statements and internal control over financial reporting, the qualifications and performance of our Company s independent registered public accountants and the performance of our Company s internal auditor. The Audit Committee relies on the expertise and knowledge of management, the internal auditor and the independent registered public accountants in carrying out its oversight responsibilities. Management has the primary responsibility for the preparation, presentation and integrity of our Company s financial statements and for maintaining an adequate system of disclosure controls and procedures and maintaining effective internal control over financial reporting for that purpose. Our Company s independent registered public accountant, Deloitte & Touche LLP, is responsible for performing an independent audit of the financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States. The independent registered public accountants are also responsible for expressing an opinion on the effectiveness of our Company s internal control over financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed our Company s audited financial statements with management, which review included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity and accuracy of disclosures in our Company s financial statements. The Audit Committee discussed with our Company s internal auditors and Deloitte & Touche LLP the overall scope and plans for their respective audits. The Audit Committee met with the internal auditors and Deloitte & Touche LLP, with and without management present, to discuss the results of their examinations, their evaluations of our Company s internal controls, and the overall quality of our Company s financial reporting. The Audit Committee further discussed with Deloitte & Touche LLP the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees*, issued by the Public Company Accounting Oversight Board, and received the written disclosures and the letter from Deloitte & Touche LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte & Touche LLP s communications with the Audit Committee concerning independence, and discussed with Deloitte & Touche LLP its independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that our Company s audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2016.

This report is submitted by the members of the Audit Committee.

William H. Hernandez, Chair
Jose Armario
Thomas A. Burke
Gretchen R. Haggerty

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES AND SERVICES

FEES PAID

The following is a summary of the fees billed to us by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu and their respective affiliates, or collectively Deloitte, for professional services rendered for the years ended December 31, 2016 and 2015:

Fee Category	2016 (thousands)	2015
Audit Fees	$2,861	$2,740
Audit-Related Fees	946	22
Tax Fees	135	130
All Other Fees	3	3
Total Fees	$3,945	$2,895

Audit Fees: Consists of fees billed for professional services rendered for the integrated audit of our consolidated financial statements and internal controls over financial reporting, review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Deloitte in connection with statutory and regulatory filings or engagements, including debt offerings.

Audit-Related Fees: Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees. These services primarily include fees for audit work in connection with the disposition of L&W Supply.

Tax Fees: Consists of fees billed for professional services related to tax compliance and other tax services. Fees for assistance with U.S. tax compliance amounted to $100,000 in 2016 and $113,000 in 2015 and fees for assistance with international tax compliance amounted to $12,000 in 2016 and $6,000 in 2015. Fees for other tax services, which primarily included international tax planning, amounted to $23,000 in 2016 and $11,000 in 2015.

All Other Fees: Consists of subscription fees of $3,000 in 2016 and 2015 for Deloitte s Accounting Research Tool.

PRE-APPROVAL OF SERVICES

The Audit Committee has a policy for pre-approval of all audit and non-audit services provided by our independent registered public accountants. Each year, the Audit Committee reviews and approves the independent registered public accountants plan for the ensuing fiscal year outlining the scope of audit services to be performed for the year and the proposed fees. If necessary, the Audit Committee will approve during the year any changes in terms, conditions and fees resulting from changes in audit scope or other matters. The Audit Committee also annually evaluates the non-audit services for which management believes the independent registered public accountants should be used and assesses whether the provision of such services is consistent with appropriate principles of independence and such other factors as the Audit Committee considers relevant. Any services not pre-approved in the annual authorization must be specifically pre-approved by the Audit Committee. The independent registered public accountants are not authorized to provide any services that are prohibited by Securities and Exchange Commission regulation or any other applicable law or regulation. Additionally, the independent registered public accountants are not allowed to provide any service to our Company under a contingent fee arrangement. To ensure prompt handling of unexpected matters, the Audit Committee delegates to its Chair the authority to amend or modify the list of approved non-audit services and related fees. The Chair then reports any such approval to the full Audit Committee.

FINANCE COMMITTEE MATTERS

Approval of the Committee Amendment

The Board recommends a vote **FOR** the approval of the Committee Amendment.

BACKGROUND AND PURPOSE

Due to historical reasons outlined below, our Restated Certificate of Incorporation requires the Board to maintain a Finance Committee. The Board has determined that it would like the flexibility to eliminate the Finance Committee in the future or to have it meet on an ad-hoc basis as necessary and is requesting that stockholders approve an amendment to our Restated Certificate of Incorporation allowing it this flexibility. 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 mandatory nature of the Finance Committee could simplify our governance structure and provide for a more efficient and flexible organizational decision-making process. If eliminated, many responsibilities of the Finance Committee would be assumed by the full Board, while the remainder would be assumed by other committees of the Board.

The requirement that we maintain a Finance Committee was added to our Restated Certificate of Incorporation pursuant to arrangements that are no longer in effect. 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. During that period, one of the members of the Finance Committee was to be appointed by Water Street Corporate Recovery Fund I, L.P., or Water Street, and one was to be appointed by a committee representing holders of our senior subordinated debentures which were converted into common stock under the restructuring plan. Our Restated Certificate of Incorporation was revised to implement these selection procedures by requiring that we maintain a Finance Committee that, until June 22, 1997, was required to be comprised of four non-employee directors.

At the time of the 1993 restructuring, Water Street and its affiliates beneficially owned approximately 21% of our outstanding common stock. By 1996, Water Street had distributed its holdings in our common stock to its partners and waived its right to representation on the Board and Finance Committee.

Although the rights of Water Street and the holders of the senior subordinated debentures to appoint directors and members of the Finance Committee expired in 1997, the provision of our Restated Certificate of Incorporation requiring us to maintain a Finance Committee remains in effect. Further, we are not required by the Securities and Exchange Commission or the NYSE to have a Finance Committee.

The Board has adopted resolutions approving and declaring the advisability of amending our Restated Certificate of Incorporation, or the Committee Amendment, to remove the requirement that we maintain a Finance Committee as described below and as provided in Annex A to this proxy statement, although the effectiveness of the Committee Amendment is subject to adoption by stockholders holding 80% of our outstanding shares of common stock as of the record date. At our 2016 annual meeting, stockholders holding 79.87% of our outstanding shares of stock voted in favor of this proposal.

DESCRIPTION OF THE COMMITTEE AMENDMENT

The following description of the Committee Amendment is qualified in its entirety by reference to the full text of the Committee Amendment, which is contained in a proposed amendment to Article Seventh of our Restated Certificate of Incorporation and can be found in Annex A to this proxy statement.

The Committee Amendment will amend Article Seventh of our Restated Certificate of Incorporation by deleting the following provision:

Notwithstanding the foregoing paragraph, the corporation shall maintain a Finance Committee, which shall have the power to review all of the corporation s significant financial matters, including, but not limited to, strategies, policies or transactions, contemplated by the corporation. Without limiting the foregoing, the Finance Committee shall provide review and oversight of and make recommendations to the board of directors on the corporation s financing requirements and programs to obtain funds; relations with banks, bondholders and other creditors; forecasting procedures on revenues, expenses, earnings, and cash flow; operating and capital expenditure budgets; dividend policy; the adoption of any compensation plan for key employees which contemplates the issuance of stock of the corporation or which is a significant cash compensation plan (other than an annual cash bonus plan consistent with past practice); and acquisitions, divestitures and significant transactions affecting the corporation s capital structure or ownership. The Finance Committee shall confer with the Pension Committee established under the corporation s retirement plan and report periodically to the board of directors on the funding of qualified pension plans of the corporation and its subsidiaries and the investment performance of plan funds and, on behalf of the board of directors, authorize necessary or desirable changes in actuarial assumptions for funding the plans. The Finance Committee shall consider such other matters as may be referred to it from time to time by the board of directors and shall at all times prior to June 22, 1997 be composed of four members of the board of directors who are not officers or employees of the corporation. Any actions by the Finance Committee shall be by a majority vote of at least 3 of its members. Prior to June 22 1997, (i) the scope and power of review of the Finance Committee as set forth herein shall not in any way be limited or reduced and (ii) the composition, existence and function of the Finance Committee as set forth herein shall not be altered or diminished, in either such case without the unanimous consent of all directors then in office.

All other provisions of Article Seventh will remain in effect.

REQUIRED VOTE

Approval of the Committee Amendment requires a for vote by 80% of the outstanding shares of our common stock as of the record date. The Committee Amendment, if adopted, would become effective upon the filing of a Certificate of Amendment to our Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which we expect to do as soon as practicable after the Committee Amendment is adopted.

The Board recommends a vote FOR the approval of the Committee Amendment.

COMPENSATION OF EXECUTIVE OFFICERS

Say-on-Pay: Advisory vote regarding the compensation of our named executive officers

The Board recommends a vote **FOR** the advisory vote approving the compensation of our named executive officers.

See page 36 for further information about our executive compensation program.

We are asking stockholders to approve an advisory resolution on the compensation of our named executive officers as reported in this proxy statement. Our compensation philosophy is designed to attract, motivate, engage and retain talented executives and align their interests with those of stockholders. Our compensation program ties pay to performance by ensuring that a significant portion of compensation is performance-based and at risk. For example, in 2016, 71% of the target total compensation for Ms. Scanlon, our President and Chief Executive Officer, was performance-based and not guaranteed, and 48% was in the form of long-term equity compensation. For 2017, the percentage of Ms. Scanlon s target total compensation that is performance-based was increased to 84%, with 67% in the form of long-term equity compensation.

We urge stockholders to read the Compensation Discussion and Analysis section of this proxy statement, which describes in more detail how our executive compensation policies and program operate and are designed to achieve our compensation philosophy, as well as the Summary Compensation Table and related compensation tables and narrative on pages 50 through 65 of this proxy statement, which provide detailed information on the compensation of our named executive officers.

At our annual meeting of stockholders held in May 2014, our stockholders approved the compensation of our named executive officers with more than 98% of the votes cast in favor of the proposal. Consistent with our stockholders support, our Compensation and Organization Committee and our Board decided not to make any significant changes to our executive compensation program in response to such vote.

We believe that our compensation programs and policies are appropriate and effective in implementing our pay-for-performance compensation philosophy and objective and in achieving our goals, and that they are aligned with stockholder interests and worthy of continued stockholder support. Our compensation programs and policies have resulted in compensation that reflects our financial results and other performance, as described in the Compensation Discussion and Analysis.

We are asking stockholders to approve the following advisory resolution at the annual meeting:

RESOLVED, that the stockholders of USG Corporation (USG) approve, on an advisory basis, the compensation of USG s named executive officers set forth in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables and narrative in the Proxy Statement for USG s 2017 Annual Meeting of Stockholders.

This advisory resolution, commonly referred to as a say-on-pay resolution, is non-binding on the Board. Although non-binding, the Board and the Compensation and Organization Committee will carefully review and consider the voting results when evaluating our executive compensation program.

The Board recommends a vote FOR the advisory vote approving the compensation of our named executive officers.

COMPENSATION DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

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. It includes 2016 total compensation for our named executive officers listed below:

Named Executive Officer	Title
Jennifer F. Scanlon(1)	President and Chief Executive Officer
Matthew F. Hilzinger	Executive Vice President and Chief Financial Officer
Brian J. Cook	Executive Vice President and Chief Administrative Officer
Dominic A. Dannessa	Executive Vice President, Chief Operations and Innovation Officer
Michelle M. Warner	Senior Vice President, General Counsel and Corporate Secretary
James S. Metcalf(2)	Former Chairman, President and Chief Executive Officer

(1) Ms. Scanlon was appointed President and Chief Executive Officer effective November 1, 2016.
(2) Mr. Metcalf retired from our Company effective October 31, 2016.

2016 CEO TRANSITION

In September 2016, we announced that Mr. Metcalf had decided to retire from his position as President and Chief Executive Officer and resign as Chairman of the Board, effective October 31, 2016. In connection with Mr. Metcalf s retirement and in accordance with our management succession plan, we also announced that the Board appointed Ms. Scanlon to become our Company s President and Chief Executive Officer, effective November 1, 2016. Ms. Scanlon was also elected to the Board at the time of the announcement. Prior to that time, Ms. Scanlon served as our Executive Vice President, President, International and President of L&W Supply.

In connection with her promotion, the Board increased Ms. Scanlon s compensation for the remainder of 2016 as described below but deferred considerations about her continuing compensation until the annual compensation review completed in February 2017. Accordingly, this Compensation Discussion and Analysis includes discussion of the compensation of Ms. Scanlon before and after her promotion, as well as the compensation of Mr. Metcalf prior to his retirement.

COMPENSATION PHILOSOPHY AND OBJECTIVES

Our executive compensation program is designed to attract, motivate, engage and retain talented executives. Our program achieves those goals by providing a competitive total compensation package that:

Aligns management s interests with those of our stockholders by using equity-based long-term incentive awards, including awards that vest only upon the achievement of performance objectives, maintaining stock ownership guidelines and restricting hedging activity.

Motivates management to achieve our strategic growth and annual operating objectives through compensation programs that reward performance. The majority of the targeted compensation opportunity for our named executive officers is variable based on achievement of an adjusted net earnings target, annual operating and financial targets, our stock price performance and total stockholder return.

Attracts and retains talented managers by ensuring that compensation opportunity is competitive in relation to similar positions in similar organizations. In setting compensation opportunity for our executive officers, we use the median level of compensation opportunity for a comparator group of companies as the reference point. We generally seek to set the target compensation opportunity for an individual executive officer around this median level based on the executive officer s performance, experience and skill. We also adjust compensation levels based on internal equity to appropriately reward the contributions of our executives and to facilitate succession planning.

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Our executive compensation program places the greatest emphasis on performance-based incentives as shown below. The 2016 target pay mix shown below for Ms. Scanlon reflects compensation for only two months out of the year as President and Chief Executive Officer in addition to the ten months prior to her promotion. In February 2017, the Board increased Ms. Scanlon s base salary and also granted her a long-term equity award which resulted in the portion of Ms. Scanlon s compensation for 2017 that is performance-based to be increased, in accordance with its historical philosophy of having a substantial portion of the President and Chief Executive Officer s compensation at risk.

SCANLON 2016 TARGET PAY MIX(1)

71% Performance Based

SCANLON 2017 TARGET PAY MIX

Annual Incentive **17%**

84% Performance Based

OTHER NEOS AVERAGE 2016 TARGET PAY MIX(1)(2)

70% Performance Based

(1) Excluding any one-time special grants.
(2) Excludes Mr. Metcalf.

2016 PERFORMANCE AND EXECUTIVE COMPENSATION

Our Company produced excellent financial and operating results in 2016 that position us well for 2017 and beyond. The annual highlights include:

- Retiring $1.1 billion in debt and achieving a leverage ratio within our target range
- Completing the disposition of our distribution business, L&W Supply, for $675 million, allowing us to focus on core manufacturing operations
- Expanding operating margins in each of our segments
- Generating $49 million in equity method income for us by USG Boral Building Products, or UBBP, our 50/50 strategic joint ventures with Boral Limited that operate in Asia, Australasia and the Middle East
- Launching our multi-year efforts to reinvest in our business through advanced manufacturing

Growing our glass-mat portfolio and launching a new line of high performance ceilings and several new flooring products

ELEMENTS OF 2016 COMPENSATION

COMPENSATION GOVERNANCE

Our executive compensation practices include governance features that align the program with stockholder interests and encourage management not to take excessive risks, including:

- the Committee is comprised solely of independent directors with whom stockholders may communicate as discussed under Communications with Directors on page 23 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 granted since 2013 are subject to double-trigger vesting upon a change in control, as discussed below;
- all Employment and Change in Control Severance Agreements entered into since 2012 do not contain provisions providing for excise tax gross-ups or additional service and age credits under our retirement plans;
- compensation recoupment, or clawback, provisions that allow our Board to recoup incentive compensation paid to an executive officer under certain circumstances, as described on page 49 of this proxy statement;
- a limit on the payout under our annual Management Incentive Program, or MIP, to a maximum of two times the par, or target, incentive award;
- an annual long-term incentive award program that is 100% performance-based consisting of (i) market share units that are earned based on our stock price performance over a three-year period, and (ii) performance share awards that are earned based on a comparison of our total stockholder return over a three-year period to the total stockholder return for the companies in the Index;
- a prohibition on our executive officers engaging in speculative transactions involving our securities, including participating in hedging activities or buying or selling puts or calls and short sales; and
- stock ownership guidelines for our non-employee directors, executive officers and other senior managers, as described on page 67 of this proxy statement.

SETTING COMPENSATION LEVELS ANNUAL REVIEW

The Committee sets the level of each element of compensation for our executive officers in February, or upon a promotion. As part of this process, the Committee considers market competitiveness, individual and company performance for the prior year, internal equity and succession plans.

MARKET COMPETITIVENESS

Since 2003, management has engaged Aon Hewitt to conduct an annual Executive Compensation Competitive Review to compare compensation opportunity for our executive officers to the compensation opportunity provided for similar positions by 20-25 industrial and/or Chicago-based companies. Each executive officer s position, including the Chief Executive Officer, is compared to positions with similar responsibilities or at an equivalent level in this comparator group. If there is no comparable position in the comparator group, the Committee generally sets compensation opportunity for the executive officer based on internal equity or general industry data.

The review provides the Committee with market information that enables it to evaluate total compensation opportunity, the mix of fixed and performance-based compensation elements and how total compensation is divided between the various elements. The Committee uses that information to evaluate recommendations made by management with respect to compensation of our executive officers other than the Chief Executive Officer, and to develop its own recommendations with respect to the compensation of the Chief Executive Officer.

We select our comparator companies from among those for which data is available in Aon Hewitt s Total Compensation Measurement database, based on their similarity to our Company in terms of industry, annual revenue, complexity of operations, business cyclicality and geographic location. They are the types of companies with which we compete for talent. For 2016, Foster Wheeler was removed because it was acquired by another company and Kennametal Inc. was removed because it was no longer included in the database. Donaldson Company, Inc., Packaging Corporation of America and Owens-Illinois, Inc. were added to ensure sufficient sample size and position us relatively near the median of the comparator group. We also took into consideration the companies included in the comparator groups used by outside proxy advisory firms. Our comparator group for 2016 was therefore comprised of:

A.O. Smith Corporation	Fortune Brands Home & Security, Inc.	Owens-Illinois, Inc.
Armstrong World Industries, Inc.	Lennox International, Inc.	Packaging Corporation of America
Ball Corporation	Martin Marietta Materials, Inc.	The Sherwin-Williams Company
Boise Cascade Company	Masco Corporation	The Valspar Corporation
BorgWarner, Inc.	MeadWestvaco Corporation	Vulcan Materials Company
Brunswick Corporation	Mohawk Industries, Inc.	W.W. Grainger, Inc.
Donaldson Company, Inc.	Mueller Water Products, Inc.	
Dover Corporation	Owens Corning	

We have designed our executive compensation packages to be market competitive in total. Our objective is to provide executive officers with a targeted total compensation opportunity generally around the median of the comparator group for their individual positions. Median compensation data for our comparator group is derived by using regression analysis to size adjust comparator group data. For 2016, the comparator group data was size adjusted to a revenue of $4.836 billion, which approximated what our 2015 annual revenues would have been at the time the analysis was completed if we had included 50% of UBBP revenues, and all of the revenue of L&W Supply, as we had not sold it at the time the analysis was conducted.

Total compensation opportunity for each executive officer is set based on performance, experience, skill and internal equity. In circumstances where the scope of one of our executive s position differs significantly from the scope of responsibility of similarly titled positions in the comparator group companies, the Committee may set the targeted compensation opportunity for that executive outside the median range. Executives who are new in a position may be below the median for one or more elements of compensation. To reward extraordinary accomplishments, to promote retention and succession planning objectives and/or to maintain internal equity, we may pay an element of compensation in excess of the median. The Committee is comfortable with setting one or more elements of an executive s compensation opportunity outside the median because the Committee is primarily concerned with the competitiveness of our executive officers total compensation opportunity as opposed to the opportunity represented by any one individual element of compensation.

Total target net compensation base salary, target annual incentive opportunity and the grant date value of long-term incentive awards for each of our named executive officers for 2016 was set as follows:

Named Executive Officer	Percentage of 2015 Median
Ms. Scanlon	96%(1)
Mr. Hilzinger	107%
Mr. Cook	109%
Mr. Dannessa	124%
Ms. Warner	95%
Mr. Metcalf	113%

(1) Determined prior to Ms. Scanlon s appointment as President and Chief Executive Officer.

PERFORMANCE

The Committee makes recommendations to the Board regarding the Chief Executive Officer s compensation. The Chief Executive Officer assesses the performance of the other executive officers and summarizes the results for the Committee when making his or her compensation recommendations to the Committee. The Committee s determination of our executive officers compensation adjustments is based on its assessment of each executive officer s contribution to our overall financial results for the year and to the accomplishment of our annual operating and financial objectives as well as internal equity.

INTERNAL EQUITY AND SUCCESSION PLANNING

The Committee also considers the level of compensation opportunity of executive officers based on its judgment of the relative importance of the responsibilities of each executive officer position to our Company and each executive officer s contribution to corporate results. In addition, adjustments may be made to further our succession planning philosophy of developing and promoting talent from within our Company. The Chief Executive Officer s compensation opportunity has historically been significantly higher than that of our other named executive officers based on our philosophy of paying market competitive compensation and reflects his or her broader accountability and the greater percentage of his or her total compensation that is performance-based. We do not set the compensation level of our executive officers as a multiple of the compensation of any other employee or group of employees.

CONSIDERATION OF ADVISORY VOTE ON COMPENSATION

At our annual meeting held in May 2014, our stockholders approved the compensation of our named executive officers with more than 98% of the votes cast in favor of the proposal. Consistent with our stockholders' support, the Committee and our Board decided not to make any significant changes to our executive compensation program in response to such vote. This year, the Board is recommending that we hold an advisory vote regarding the compensation of our named executive officers every year, as opposed to every three years, as discussed further on page 66 of this proxy statement.

ELEMENTS OF TOTAL COMPENSATION

Our compensation program consists of the following elements:

- base salary;
- annual incentive;

- long-term incentive; and
- benefits and perquisites.

BASE SALARY

The starting point for determining base salaries for our executive officers is the annual Aon Hewitt Executive Compensation Competitive Review. Individual salaries for our named executive officers in 2016 ranged between approximately 94% and 112% of the median for the comparator group. Factors that warrant paying above the median include: individual performance, as assessed by the Chief Executive Officer (or in the case of the Chief Executive Officer, the Committee and Board), experience, skills, internal equity and retention considerations.

The Committee approved salary increases for 2016 for all salaried employees, including the following increases for our named executive officers:

Named Executive Officer	Percentage Increase
Ms. Scanlon	10.6%(1)
Mr. Hilzinger	4.3%
Mr. Cook	5.7%
Mr. Dannessa	11.1%
Ms. Warner	N/A(2)
Mr. Metcalf	2.9%

(1) *The increase shown was approved in February 2016, prior to Ms. Scanlon s promotion to President and Chief Executive Officer. In connection with that promotion, the Committee approved an additional 88.9% increase of her salary to $850,000, effective November 1, 2016.*

(2) *Ms. Warner joined our Company in January 2016.*

ANNUAL INCENTIVE

Our MIP provides a variable reward opportunity based on adjusted net earnings and the achievement of operating and financial objectives derived from our annual operating plan. We pay annual incentive awards in the first quarter of the year following the year in which they are earned.

The target annual incentive opportunity for participants in the MIP is expressed as a percentage of base salary. For 2016, the target annual incentive opportunity for named executive officers ranged from 65% of base salary to 120% of base salary for Mr. Metcalf. The amount of the target annual incentive opportunity for each of our named executive officers for 2016 is indicated under the heading Estimated Possible Payouts Under Non-Equity Incentive Plan Awards in the 2016 Grants of Plan-Based Awards Table on page 52 of this proxy statement.

Ms. Scanlon s annual incentive opportunity under the MIP for 2016 was 70% of base salary for the ten months of the year she served as Executive Vice President, President, International and President of L&W Supply and 100% of base salary for the two months she served as President and Chief Executive Officer. Our Chief Executive Officer s annual incentive opportunity is higher than the opportunity for our other executive officers in 2016 in recognition of the broader scope of his or her responsibilities and impact on corporate performance, and based on market data regarding compensation of chief executive officers of the companies in our comparator group.

For 2016, the annual incentive award opportunity was comprised of the following segments: adjusted net earnings and annual operating and financial objectives, or Focus Targets. These are designed to provide an incentive to maximize earnings and pursue operational excellence. Following the sale of L&W Supply on October 31, 2016, the Committee exercised discretion to adjust the minimum, target and maximum amounts for adjusted net earnings and the Focus Targets for consolidated and L&W Supply adjusted operating margins, selling and administrative expenses and cash conversion cycle to include the L&W Supply plan for only the first ten months of 2016, and thereby reduced annual incentives from the amounts that would have been earned without such adjustments. On an individual basis, the payouts ranged from 176% to 187% of par for our named executive officers other than Mr. Metcalf, who did not receive an award under the MIP because he retired effective October 31, 2016.

Management Incentive Plan Components

Segment	Objective	Features	
Adjusted Net Earnings[1]	Align management s interests with stockholders and motivate management to increase our profitability	Weight	50%
		2016 Target	$241 million[2]
		2016 Minimum	$207 million
		2016 Maximum	$271 million
		2016 Performance	$295 million[3]
		2016 Payout Earned % of Par	200%[4]
Focus Targets	Motivate management to achieve annual operating objectives	Weight	50%
		Payout Range	0% to 200%
		2016 Average NEO Payout Earned % of Par	167%[4]

(1) Straight-line interpolation is used to determine values between performance thresholds.

(2) In setting the amounts for 2016, the Committee took into account our projected U.S. tax expense in 2016 following the reversal of a tax valuation allowance of $731 million in 2015, and neutralized the amounts for foreign currency and incentive plan expense above or below planned amounts.

(3) For 2016, net earnings as reported were $510 million and were adjusted to exclude the following nonrecurring and non-operational events: gain on the sale of L&W Supply; pension settlement charges, disposition expenses, L&W Supply retention incentives and the cost to exit commercial office space, each of which related to the sale of L&W Supply; loss on extinguishment of debt; long-lived asset impairment charges; a supplemental executive retirement plan settlement for our former chief executive officer; gains related to sales of non-core assets or other non-recurring gains or losses; a legal settlement; and neutralization for foreign currency and incentive plan expense above or below planned amounts.

(4) Excludes Mr. Metcalf, who did not receive an award under the MIP because he retired effective October 31, 2016.

To support our 2016 operating objectives we introduced consolidated adjusted operating margin, L&W Supply adjusted operating margin and cash conversion cycle as new Focus Targets for our named executive officers for 2016. The adjusted operating margin Focus Targets promote increased profitability along with cost containment. The cash conversion cycle Focus Target promotes efficient use of resources and cash generation.

We believe these Focus Targets were effective because during 2016 we increased our operating profit by 11% and expanded operating margins in each of our segments, while significantly reducing our cash conversion cycle. The charts below outline the specific Focus Targets chosen by the Committee for each of our named executive officers.

Measure	Minimum	Target	Maximum	2016 Performance	Payout Earned % of Par
Adjusted Operating Margins					
Consolidated[1]	11.3 %	13.1 %	14.8%	14.1 %	157%
L&W Supply[2]	2.1 %	3.0 %	3.9 %	3.9 %	200%
UBBP Adjusted Equity Income ($ in millions)[3]	$45	$55	$65	$58	133%
U.S. Wallboard Cost			(4)		115%
Selling and Administrative Expense ($ in millions)[5]	<$297	$292	$287	$287	185%
Cash Conversion Cycle (Days/Cycle; First ten months of 2016)[6]	46	45	44	43	200%
Cash Conversion Cycle (Days/Cycle; Last two months of 2016)[6]	33	32	31	26	200%

(1) Consolidated operating margin (consolidated operating profit divided by consolidated net sales) was 13.1% in 2016. To calculate adjusted operating margin, operating profit was adjusted to include equity income from UBBP and exclude the following nonrecurring and non-operational events: pension settlement charges, L&W Supply retention incentives and the cost to exit commercial office space, each of which related to the sale of L&W Supply; long-lived asset impairment charges; a supplemental executive retirement plan settlement for our former chief executive officer; gains related to sales of non-core assets; a legal settlement; and neutralization for foreign currency and

incentive plan expense above or below planned amounts. Net sales were adjusted to include sales from L&W Supply for the first 10 months of 2016, prior to the sale of L&W Supply, and exclude the following nonrecurring and non-operational events: a prior-year rebate adjustment, a litigation accrual and neutralization for foreign currency.

(2) *Operating margin for the L&W Supply segment (L&W Supply operating profit divided by L&W Supply net sales) was 2.7% for the first 10 months of 2016, prior to the sale of L&W Supply. To calculate adjusted operating margins for L&W Supply, L&W Supply operating profit was adjusted to exclude transaction costs, retention incentives and neutralization for incentive plan expense above or below planned amounts.*

(3) *Equity income from UBBP was $49 million for 2016 and was adjusted to exclude our Company s share of long-lived asset impairment charges and neutralization for foreign currency.*

(4) *We do not publicly disclose U.S. Wallboard Cost because that information constitutes confidential commercial and financial information, the disclosure of which would cause us competitive harm. The target level for this Focus Target was set at a challenging, but achievable, level.*

(5) *Selling and administrative expense was $304 million for 2016 and was adjusted to include SG&A from L&W Supply for the first 10 months of 2016, prior to the sale of L&W Supply, and exclude the following nonrecurring and non-operational events: pension settlement charges, L&W Supply retention incentives and the cost to exit commercial office space, each of which related to the sale of L&W Supply; a supplemental executive retirement plan settlement for our former chief executive officer; a legal settlement; and neutralization for foreign currency and incentive plan expense above or below planned amounts.*

(6) *Cash conversion cycle was adjusted to exclude the following nonrecurring and non-operational events: gains related to sales of non-core assets or other non-recurring gains or losses; long-lived asset impairment charges; pension settlement charges related to the sale of L&W Supply; and neutralization for foreign currency and incentive plan expense above or below planned amounts.*

For 2016, the named executive officers were assigned the following Focus Targets with the weightings indicated below:

	Consolidated Adjusted Operating Margin	L&W Supply Adjusted Operating Margin	UBBP Adjusted Equity Income	U.S. Wallboard Cost	SG&A	Cash Conversion Cycle
Ms. Scanlon[1]		20 %	20%			10%
Mr. Hilzinger	20 %		10%		10 %	10%
Mr. Cook	20 %		10%		10 %	10%
Mr. Dannessa	20 %		10%	10 %		10%
Ms. Warner	20 %		10%		10 %	10%
Mr. Metcalf	30 %		10%		10 %	

(1) *For 2016, the amount of Ms. Scanlon s annual incentive award was determined using the focus targets established in February 2016, prior to her appointment as President and Chief Executive Officer.*

LONG-TERM INCENTIVE

At our annual meeting in 2016 our stockholders approved a new equity-based incentive-compensation plan, the USG Corporation 2016 Long-Term Incentive Plan. Prior thereto grants were made under the USG Corporation Long-Term Incentive Plan, and we refer to the two plans collectively as the LTIP. The purpose of the LTIP is to motivate management to build the value of the enterprise, to align management s interests with those of our stockholders and to provide a competitive compensation opportunity that enables us to attract and retain talented employees.

For 2016, the annual awards consisted of market share units, or MSUs, and performance shares. These awards are performance based or at risk , based on both our absolute stock performance with MSUs (as measured by our stock price) and relative stock performance with performance shares (as measured by our total stockholder return compared to other companies in the Index). We believe combining elements of both absolute stock performance and relative stock performance provides the best incentive for management to increase stockholder value. The LTIP also provides for the use of stock options, stock appreciation rights, restricted stock units, or RSUs, restricted stock, performance units and other stock and cash awards.

At their regularly scheduled meetings in February 2016, the Committee and Board approved annual awards for 2016. For executive officers, 75% of the grant date value of the total award was provided in the form of MSUs and the remaining 25% was provided in the form of performance shares.

Market Share Units

MSUs are stock units earned based on the stock market performance of our common stock as measured over a three-year period.

The actual number of shares of common stock to be issued can range from zero to 150% of the number of MSUs awarded based on the percentage change in the price of our common stock over the three-year vesting period. If the stock price increases during the vesting period, both the value and number of shares that vest increase. If the stock price declines, both the value and number of units that are eligible to vest will be reduced.

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