

USG CORP  
Form DEFM14A  
August 23, 2018  
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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)**

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**USG Corporation**

550 West Adams Street

Chicago, Illinois 60661

Founded in 1902

August 23, 2018

Dear Fellow Stockholder:

It is a pleasure to invite you to attend a special meeting of the stockholders of USG Corporation ( USG, we, our or the Company ). The special meeting will be held at 9:00 a.m., Chicago time, on September 26, 2018, at USG Corporate Headquarters, 550 West Adams Street, Chicago, Illinois 60661-3676. The attached notice of special meeting of stockholders and proxy statement discuss the items scheduled for a vote by stockholders at the meeting.

On June 10, 2018, we entered into an Agreement and Plan of Merger (as it may be amended from time to time, the merger agreement ) with Gebr. Knauf KG, a limited partnership (*Kommanditgesellschaft*) organized under the laws of Germany ( Knauf ), and World Cup Acquisition Corporation, a Delaware corporation and an indirect, wholly-owned subsidiary of Knauf ( Merger Sub ), pursuant to which, subject to the satisfaction of customary closing conditions, Merger Sub will be merged with and into the Company (the merger ), with the Company continuing as the surviving corporation in the merger and an indirect, wholly-owned subsidiary of Knauf.

At the special meeting, our stockholders will be asked to consider and vote on a proposal to adopt the merger agreement. In addition, our stockholders will be asked to consider and vote on a proposal to approve, on a non-binding, advisory basis, the compensation payments that will or may be paid or become payable to the Company s named executive officers and that are based on or otherwise relate to the merger and the agreements and understandings pursuant to which such compensation will or may be paid or become payable (the transaction-related named executive officer compensation ). Finally, our stockholders will be asked to consider and vote on a proposal to approve the adjournment of the special meeting, if necessary or appropriate, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement or in the absence of a quorum (the adjournment proposal ).

If the merger agreement is adopted and the merger is completed, at the effective time of the merger, each share of our common stock, par value \$0.10 per share ( common stock ) issued and outstanding immediately prior to the effective time of the merger (other than shares of our common stock owned by Knauf and its subsidiaries, the Company and its subsidiaries or excluded holders, as defined in the accompanying proxy statement) automatically will be converted into the right to receive the closing consideration of \$43.50 in cash, without interest and subject to tax withholding as applicable (the closing consideration ). In addition to the closing consideration, as contemplated in the merger agreement, the Company declared a conditional special cash dividend of \$0.50 per share of our common stock (the conditional special dividend ) payable to holders of our common stock as of the record date of the special meeting (subject to due bill trading as further described in the accompanying proxy statement). The conditional special dividend is conditioned on the merger agreement being adopted by our stockholders at the special meeting and, if the merger agreement is so adopted, will be paid following certification of the results of the special meeting. The payment of the conditional special dividend is not conditioned on completion of the merger. For discussion of the impact of the merger, including the closing

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consideration and the conditional special dividend, on each outstanding Company stock option, time-vesting restricted stock unit, market share unit, performance share and deferred stock unit, see the section entitled *The Merger Agreement Treatment of Company Equity Awards* in the accompanying proxy statement. The total consideration, consisting of the closing consideration and the conditional special dividend, of \$44.00 per share of our common stock represents a premium of approximately 31% to our unaffected closing price of \$33.51 and a 36% premium to the \$32.36 average closing price for the preceding 12-month period, both as of March 23, 2018, the business day immediately prior to the public announcement of Knauf's proposal to acquire the Company.

Concurrently with the execution of the merger agreement, Berkshire Hathaway Inc., on behalf of itself and certain of its direct and indirect subsidiaries that own shares of our common stock (collectively, Berkshire), entered into a voting agreement, dated June 10, 2018, with Knauf and Merger Sub, in which Berkshire agreed, among other things and subject to the terms thereof, to vote (or cause to be voted) all shares of our common stock then beneficially owned by Berkshire, directly or indirectly, **FOR** adoption of the merger agreement, approval of the merger and the consummation of all of the transactions contemplated thereby and against any competing acquisition proposals relating to the Company. As provided in its Schedule 13D filed on June 11, 2018, Berkshire owns 43,387,980 shares of our common stock, which represents approximately 31.1% of the shares of our common stock issued and outstanding based on 139,462,508 shares of our common stock outstanding as of June 7, 2018 as represented in the merger agreement. Pursuant to the merger agreement, Knauf has agreed to vote, or cause any of its applicable subsidiaries to vote, in person or by proxy, all shares of our common stock held by Knauf, directly or indirectly, as of the record date of the special meeting **FOR** adoption of the merger agreement, **FOR** approval, on a non-binding, advisory basis, of the transaction-related named executive officer compensation, and, as requested by the Company, any other action in furtherance thereof to be voted on by the holders of our common stock at the special meeting. As provided in its Schedule 13D filed on June 11, 2018, Knauf owns 14,757,258 shares of our common stock, which represents approximately 10.6% of the shares of our common stock issued and outstanding based on 139,462,508 shares of our common stock outstanding as of June 7, 2018 as represented in the merger agreement.

The USG board of directors unanimously recommends our stockholders vote **FOR** adoption of the merger agreement, **FOR** approval, on a non-binding, advisory basis, of the transaction-related named executive officer compensation, and **FOR** the adjournment proposal.

The accompanying proxy statement describes the merger agreement, the merger, the conditional special dividend and related matters, and attaches a copy of the merger agreement. We urge stockholders to read the entire proxy statement carefully, as it sets forth details of the merger agreement and other important information related to the merger and the conditional special dividend.

Your vote is very important. Whether or not you expect to attend the special meeting, we encourage you to vote your shares of our common stock as promptly as possible to make certain that you are represented at the special meeting. You may vote over the Internet, as well as by telephone or by mailing a proxy card or voting instruction card. If you are a street name holder (a holder whose shares of our common stock are held through a broker, bank or other nominee), for your shares of our common stock to be represented at the special meeting, you must instruct your broker, bank or other nominee as to how to vote your shares of our common stock by following the directions provided to you by your broker, bank or other nominee. The merger cannot be completed unless holders of at least 80 percent of the outstanding shares of our common stock entitled to vote at the special meeting vote **FOR** adoption of the merger agreement. Therefore, your failure to vote, abstention or failure to instruct your broker, bank or other nominee to vote, will have the same effect as a vote **AGAINST** adoption of the merger agreement. Failures to vote, abstentions and failures to instruct your broker, bank or other nominee to vote, will have no effect on the other proposals to be considered at the special meeting.

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If you have any questions or need assistance voting your shares of our common stock, please contact D.F. King & Co., Inc., our proxy solicitor, by calling toll-free at (866) 745-0273 or collect at (212) 269-5550.

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On behalf of the entire USG board of directors, we want to thank you for your continued support.

Sincerely,

**Steven F. Leer**

**Jennifer F. Scanlon**

*Non-Executive Chairman of*

*President and Chief Executive Officer*

*the USG Board of Directors*

**Neither the U.S. Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger, the merger agreement or the other transactions contemplated thereby or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.**

**This proxy statement is dated August 23, 2018 and is first being mailed to stockholders on or about August 23, 2018.**

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**USG CORPORATION**

**550 West Adams Street**

**Chicago, Illinois 60661**

**Notice of Special Meeting of Stockholders**

**To Be Held on September 26, 2018**

**WHEN**

September 26, 2018 at 9:00 a.m.,

Chicago Time

**WHERE**

USG Corporate Headquarters

550 West Adams Street

Chicago, Illinois 60661-3676

**WHO CAN VOTE**

Only stockholders of record at the close of business on August 21, 2018 will be entitled to vote at the special meeting, or any adjournment or postponement thereof (the "special meeting").

**ITEMS OF BUSINESS**

At the special meeting, stockholders will be asked to consider and vote on the following proposals:

1. to adopt the Agreement and Plan of Merger, dated as of June 10, 2018 (as it may be amended from time to time, the "merger agreement"), by and among USG Corporation (the "Company"), Gebr. Knauf KG, a limited partnership (*Kommanditgesellschaft*) organized under the laws of Germany ("Knauf"), and World Cup



Acquisition Corporation, a Delaware corporation and an indirect, wholly-owned subsidiary of Knauf ( Merger Sub ), pursuant to which, subject to the satisfaction of customary closing conditions, Merger Sub will be merged with and into the Company (the merger ), with the Company continuing as the surviving corporation in the merger and an indirect, wholly-owned subsidiary of Knauf;

2. to approve, on a non-binding, advisory basis, the compensation payments that will or may be paid or become payable to the Company's named executive officers and that are based on or otherwise relate to the merger and the agreements and understandings pursuant to which such compensation will or may be paid or become payable (the transaction-related named executive officer compensation ); and
3. to approve the adjournment of the special meeting, if necessary or appropriate, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement or in the absence of a quorum (the adjournment proposal ).

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We will transact no other business at the special meeting except such business as may properly be brought before the special meeting. Please refer to the accompanying proxy statement for further information with respect to the business to be transacted at the special meeting. The accompanying proxy statement forms a part of this notice and is incorporated herein by reference.

**RECOMMENDATION**

After due consideration and discussion, the USG board of directors (the Board) unanimously (i) determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to, advisable and in the best interests of the Company and its stockholders, (ii) approved and declared advisable the merger agreement and the completion by the Company of the transactions contemplated thereby, including the execution, performance and delivery of the merger agreement, (iii) subject to the merger agreement, resolved to recommend the adoption of the merger agreement and the transactions contemplated thereby by the Company's stockholders, and (iv) directed that the merger agreement be submitted to the Company's stockholders for adoption. **The Board unanimously recommends you vote (1) FOR adoption of the merger agreement, (2) FOR approval, on a non-binding, advisory basis, of the transaction-related named executive officer compensation, and (3) FOR the adjournment proposal.** If you sign, date and return your proxy card without indicating how you wish to vote on a proposal, your proxy will be voted **FOR** each of the foregoing proposals in accordance with the recommendation of the Board.

**VOTING**

The adoption of the merger agreement requires the affirmative vote of holders of at least 80 percent of the outstanding shares of our common stock, par value \$0.10 per share (common stock), entitled to vote at the special meeting and is a condition to the completion of the merger. The approval, on a non-binding, advisory basis, of the transaction-related named executive officer compensation and the approval of the adjournment proposal each requires the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy and entitled to vote on such proposal and which are actually so voted at the special meeting, but neither is a condition to the completion of the merger.

**YOUR VOTE IS IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES OF OUR COMMON STOCK YOU OWN. The merger cannot be completed unless the merger agreement is adopted by the affirmative vote of the holders of at least 80 percent of the outstanding shares of our common stock entitled to vote at the special meeting. EVEN IF YOU PLAN ON ATTENDING THE SPECIAL MEETING IN PERSON, WE REQUEST THAT YOU AUTHORIZE YOUR PROXY TO VOTE YOUR SHARES OF OUR COMMON STOCK BY EITHER MARKING, SIGNING, DATING AND PROMPTLY RETURNING THE PROXY CARD OR SUBMITTING YOUR PROXY OR VOTING INSTRUCTIONS BY TELEPHONE OR INTERNET, AS OUTLINED BELOW. If you attend the special meeting and desire to vote in person, you may do so even though you have previously sent in your proxy. The failure to vote, either in person or by proxy, abstention, or to provide voting instructions to your broker, will have the same effect as a vote AGAINST adoption of the merger agreement.** Failure to vote, abstentions and broker non-votes will have no effect on the other proposals to be considered at the special meeting.

You can vote in person at the special meeting. For further information regarding attending the special meeting, see the section entitled *Special Meeting* in the accompanying proxy statement. Even if you plan to attend the meeting, please vote as soon as possible using one of the following methods:

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1. **By Telephone:** In the U.S. or Canada, you can vote your shares of our common stock toll-free by calling 1-800-690-6903.
2. **By Internet:** You can vote your shares of our common stock online at [www.proxyvote.com](http://www.proxyvote.com).
3. **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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Brokers may not vote your shares of our common stock on any of the matters being presented at the special meeting in the absence of specific voting instructions from you. Please contact your broker directly if you have questions about how to provide such instructions.

Under Delaware law, stockholders who do not vote **FOR** adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares of our common stock as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for an appraisal before the vote on the proposal to adopt the merger agreement and comply with the other Delaware law procedures explained in the accompanying proxy statement. See the section entitled *Appraisal Rights* in the accompanying proxy statement.

You may revoke your proxy at any time before the vote at the special meeting by following the procedures outlined in the accompanying proxy statement.

Before voting your shares of our common stock, we urge you to, and you should, read the entire accompanying proxy statement carefully, including its annexes and the documents incorporated by reference in the proxy statement. If you have any questions concerning the merger, merger agreement, transaction-related named executive officer compensation, adjournment proposal, special meeting, conditional special dividend and related due bill trading or accompanying proxy statement, or if you would like additional copies of the accompanying proxy statement (at no charge) or need help submitting a proxy to have your shares of our common stock voted, please contact our proxy solicitor:

D.F. King & Co., Inc.

48 Wall Street

New York, NY 10005

Bankers and Brokers Call: (212) 269-5550

All Others Call: (866) 745-0273

Email: usg@dfking.com

**MEETING ADMISSIONS:**

An admission ticket (or other proof of stock ownership) and a form of photo identification will be required for admission to the special meeting. In addition, if you are not a stockholder of record but hold shares of our common stock 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 the section entitled *The Special Meeting* in the accompanying proxy statement.

**DATE OF MAILING:**

The proxy statement and the accompanying proxy card were first made available to our stockholders on or about August 23, 2018.

By order of the Board of Directors,

**Michelle M. Warner**

*Senior Vice President, General Counsel and  
Corporate Secretary*

August 23, 2018

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*This summary highlights selected information contained in this proxy statement, including with respect to the merger agreement, merger and conditional special dividend. We encourage you to, and you should, carefully read this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement, as this summary may not contain all of the information that may be important to you in determining how to vote. We have included page references to direct you to a more complete description of the topics presented in this summary. You may obtain the information incorporated by reference into this proxy statement without charge by following the instructions in the section entitled *Where You Can Find Additional Information*.*

**The Companies (page 25)*****USG Corporation***

USG Corporation ( USG, the Company, we, our or us ) is a Delaware corporation. We are an industry-leading manufacturer of building products and innovative solutions. Headquartered in Chicago, Illinois, we serve construction markets around the world through our Gypsum, Performance Materials, Ceilings, and USG Boral divisions. Our wall, ceiling, flooring, sheathing and roofing products provide the solutions that enable customers to build the outstanding spaces where people live, work and play. Our UBBP joint venture (as defined below) is a leading plasterboard and ceilings producer across Asia, Australasia and the Middle East.

A detailed description of the Company's business is contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which is incorporated by reference into this proxy statement. See the sections entitled *Where You Can Find Additional Information* and *The Companies USG Corporation*.

***Gebr. Knauf KG***

Gebr. Knauf KG ( Knauf ) is a limited partnership (*Kommanditgesellschaft*) organized under the laws of Germany and is the ultimate parent company of the Knauf Group, which is headquartered in Iphofen, Germany. Knauf is a leading manufacturer of building materials operating more than 220 factories worldwide. In 2017, Knauf generated global revenues in excess of \$8 billion and employed more than 27,000 people. See the section entitled *The Companies Gebr. Knauf KG*.

***World Cup Acquisition Corporation***

World Cup Acquisition Corporation ( Merger Sub ) is a Delaware corporation and an indirect, wholly-owned subsidiary of Knauf that will function as the merger subsidiary in the merger. See the section entitled *The Companies World Cup Acquisition Corporation*.

**The Merger (page 32)**

You will be asked to consider and vote to adopt the Agreement and Plan of Merger, dated as of June 10, 2018 (as it may be amended from time to time, the merger agreement ), by and among the Company, Knauf and Merger Sub, pursuant to which, subject to the satisfaction of customary closing conditions, Merger Sub will be merged with and into the Company (the merger ), with the Company continuing as the surviving corporation in the merger and an indirect, wholly-owned subsidiary of Knauf. A copy of the merger agreement is attached to this proxy statement as Annex A.

If the merger agreement is adopted and the merger is completed, at the effective time of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger (other

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than shares of our common stock owned by Knauf and its subsidiaries, the Company and its subsidiaries or excluded holders) automatically will be converted into the right to receive the closing consideration of \$43.50 in cash, without interest and subject to tax withholding as applicable (the closing consideration ). Excluded holders are holders of shares of our common stock who have not voted, or caused or permitted to be voted, any shares of our common stock

**FOR** adoption of the merger agreement at the special meeting and who have properly demanded and not withdrawn a demand for, or otherwise lost or waived their right to, appraisal rights pursuant to Section 262 of the General Corporation Law of the State of Delaware (the DGCL ). In addition to the closing consideration, as contemplated in the merger agreement, the Company declared a conditional special cash dividend of \$0.50 per share of our common stock (the conditional special dividend and together with the closing consideration, the total consideration ) payable to holders of our common stock as of the record date (as defined below) of the special meeting (subject to due bill trading as further described in this proxy statement). Payment of the conditional special dividend is conditioned on the merger agreement being adopted by the affirmative vote of the holders of at least 80 percent of the outstanding shares of our common stock entitled to vote at the special meeting (the stockholder approval ) and, if the merger agreement is so adopted, will be paid following certification of the results of the special meeting. The payment of the conditional special dividend is not conditioned on the completion of the merger and, if stockholder approval of the adoption of the merger agreement is obtained, will be paid regardless of whether the merger is completed. Additionally, each holder of any time-vesting restricted stock unit award ( Company RSU Award ) or award of deferred stock units ( Company DSU Award ), outstanding as of the record date of the special meeting, will receive a dividend equivalent in an amount equal to the product of (i) the conditional special dividend, and (ii) the number of shares underlying such award in accordance with the terms of the applicable award.

With respect to any stock option ( Company stock option ), award of market share units ( Company MSU Award ) and award of performance shares ( Company Performance Share Award ) outstanding as of June 10, 2018, because, by their terms, they are not entitled to receive dividend equivalents in respect of the conditional special dividend, the Company will grant Dividend Make-Whole Amount (as defined below) payments in an amount equal to the product of (i) the conditional special dividend, multiplied by (ii) the number of shares of common stock that either (a) are or become vested and paid out on such Company stock options, Company MSU Awards and Company Performance Share Awards in connection with the completion of the merger and did not otherwise participate in the conditional special dividend, or (b) subject to the applicability of due bill trading, are or become vested and become payable following the record date, but prior to the closing date of the merger, in each case as determined by the Company (each a Dividend Make-Whole Amount ). The Dividend Make-Whole Amount will be earned upon the effective time of the merger subject to the holder of the underlying Company stock options, Company MSU Awards and Company Performance Share Awards remaining continuously employed by the Company and its subsidiaries until immediately prior to the effective time of the merger, and will be paid promptly thereafter, but in no event later than 15 days following the effective time of the merger. However, if any holder of outstanding Incentive Equity Awards (as defined below) terminates employment with the Company or any of its subsidiaries prior to the effective time of the merger, and any such Incentive Equity Awards remain outstanding following such termination in accordance with their terms, then such holder will still be eligible to receive a Dividend Make-Whole Amount with respect to such outstanding Incentive Equity Awards. For further discussion of the impact of the merger, including the closing consideration and the conditional special dividend, on each outstanding Company stock option, Company RSU Award, Company MSU Award, Company Performance Share Award and Company DSU Award in the merger, see the section entitled *The Merger Agreement Treatment of Company Equity Awards* in this proxy statement.

Upon completion of the merger, the Company will be an indirect, wholly-owned subsidiary of Knauf, our common stock will no longer be publicly traded and the Company's existing stockholders (other than Knauf) will cease to have any ownership interest in the Company.



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***Stock Options.*** At the effective time of the merger, each award of Company stock options in respect of our common stock that is outstanding immediately prior to the effective time of the merger will be converted into the right to receive a cash payment as promptly as practicable, but in no event later than 15 calendar days after the effective time of the merger, equal to the product of (i) the number of shares of our common stock subject to such Company stock option as of the effective time of the merger, multiplied by (ii) the excess, if any, of the closing consideration over the exercise price for such Company stock option. For information regarding the impact of the conditional special dividend on Company equity awards, see the section entitled *Dividend Make-Whole Amounts* below.

***Restricted Stock Unit Awards.*** At the effective time of the merger, each Company RSU Award in respect of our common stock that is outstanding immediately prior to the effective time of the merger will become fully vested and will be converted into the right to receive as promptly as practicable, but in no event later than 15 calendar days after the effective time of the merger, a cash payment equal to the product of (i) the number of shares of our common stock subject to such Company RSU Award as of the effective time of the merger, multiplied by (ii) the closing consideration; provided that to the extent any such Company RSU Award constitutes nonqualified deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended (the Code), such cash payment will be paid in accordance with the applicable award's terms and at the earliest time permitted under the terms of such award that will not result in the application of a tax or penalty under Section 409A of the Code. If stockholder approval of the adoption of the merger agreement is obtained, each holder of any Company RSU Award, outstanding as of the record date of the special meeting, that provides for dividend equivalents, will receive a dividend equivalent in an amount equal to the product of (i) the conditional special dividend, and (ii) the number of shares underlying such Company RSU Award in accordance with the terms of such award. The dividend equivalent will be converted into additional Company RSU Awards that will vest and be paid out along with the other outstanding Company RSU Awards as promptly as practicable, but in no event later than 15 calendar days after the effective time of the merger.

***Market Share Unit Awards and Performance Share Awards.*** At the effective time of the merger, each Company MSU Award and Company Performance Share Award in respect of our common stock that is outstanding immediately prior to the effective time of the merger will become fully vested and will be converted into the right to receive as promptly as practicable, but in no event later than 15 calendar days after the effective time of the merger, a cash payment equal to the product of (i) (a) in the case of a Company MSU Award, the number of shares of our common stock earned under such Company MSU Award, determined as of the effective time of the merger by substituting the closing consideration for the market value per share, or (b) in the case of a Company Performance Share Award, the number of shares of our common stock earned under such Company Performance Share Award, determined by substituting the closing consideration for the ending stock price in determining the achievement of the performance goal measured as of the effective time of the merger, multiplied by (ii) the closing consideration; provided that to the extent any such Company MSU Award or Company Performance Share Award constitutes nonqualified deferred compensation subject to Section 409A of the Code, such cash payment will be paid in accordance with the applicable award's terms and at the earliest time permitted under the terms of such award that will not result in the application of a tax or penalty under Section 409A of the Code. For information regarding the impact of the conditional special dividend on Company MSU Awards and Company Performance Share Awards, see the section entitled *Dividend Make-Whole Amounts* below.

***Deferred Stock Unit Awards.*** Pursuant to the merger agreement, it is expected that all of the Company's non-employee directors will be replaced as of the effective time of the merger. Accordingly, at the effective time of the merger, each Company DSU Award held in notional accounts by non-employee directors who will experience a separation from service under Section 409A of the Code in connection with the completion of the merger, will be converted into a right to receive a cash payment equal to the product of (i) the number of shares



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of our common stock deemed to be held in the notional account immediately before the effective time of the merger, multiplied by (ii) the closing consideration; provided that (a) to the extent that any such non-employee director is a specified employee under Section 409A of the Code or (b) such non-employee director does not have a separation from service in connection with the completion of the merger, such cash payment will be paid in accordance with the applicable Company DSU Award's terms and at the earliest time permitted under the terms of such award that will not result in the application of a tax or penalty under Section 409A of the Code. If stockholder approval of the adoption of the merger agreement is obtained, each holder of any Company DSU Awards, outstanding as of the record date of the special meeting, will receive a dividend equivalent in an amount equal to the product of (i) the conditional special dividend, and (ii) the number of shares underlying such Company DSU Award in accordance with the terms of such award.

***Dividend Make-Whole Amounts.*** The Company will grant a Dividend Make-Whole Amount to each holder of Company stock options, Company MSU Awards, and Company Performance Share Awards (collectively, the Incentive Equity Awards ) that were outstanding as of June 10, 2018 in the form of a cash payment in an amount equal to the product of (i) the conditional special dividend, multiplied by (ii) the number of shares of common stock that either (a) are or become vested and paid out on such Incentive Equity Awards in connection with the completion of the merger and did not otherwise participate in the conditional special dividend, or (b) subject to the applicability of due bill trading, are or become vested and become payable following the record date, but prior to the closing date of the merger, in each case as determined by the Company. The Dividend Make-Whole Amount will be earned upon the effective time of the merger subject to the holder of the underlying Incentive Equity Award remaining continuously employed by the Company and its subsidiaries until immediately prior to the effective time of the merger, and will be paid promptly thereafter, but in no event later than 15 days following the effective time of the merger. However, if any holder of outstanding Incentive Equity Awards terminates employment with the Company or any of its subsidiaries prior to the effective time of the merger, and any such Incentive Equity Awards remain outstanding following such termination in accordance with their terms, then such holder will still be eligible to receive a Dividend Make-Whole Amount with respect to such outstanding Incentive Equity Awards.

**Conditions to Completion of the Merger (page 94)**

The respective obligations of the Company, Knauf and Merger Sub to complete the merger are subject to the satisfaction or waiver of certain customary conditions, including obtaining stockholder approval of the adoption of the merger agreement, receipt of certain regulatory approvals, the absence of any legal prohibitions to the completion of the merger, the accuracy of the representations and warranties of the parties and compliance by the parties with their respective obligations under the merger agreement. For further information, see the section entitled *The Merger Agreement Conditions to Completion of the Merger* and Annex A.

**When the Merger Becomes Effective (page 78)**

As of the date of this proxy statement, we expect to complete the merger in early 2019. However, completion of the merger is subject to the satisfaction or waiver of the conditions to completion of the merger, which are described in this proxy statement and include various regulatory clearances and approvals, and it is possible that the merger will not be completed until a later time, or at all. There may be a substantial amount of time between the special meeting and completion of the merger. After stockholder approval of the adoption of the merger agreement is obtained, the Board will not have the right to terminate the merger agreement in order to accept any alternative acquisition proposal. We expect to complete the merger promptly following the receipt of all required approvals.

**Recommendations of the Board and Reasons for the Merger (page 44)**



After careful consideration and discussion, the Board by unanimous vote, (i) determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are fair to, advisable and

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in the best interests of the Company and its stockholders, (ii) approved and declared advisable the merger agreement and the completion by the Company of the transactions contemplated thereby, including the execution, performance and delivery of the merger agreement, (iii) subject to the merger agreement, resolved to recommend the adoption of the merger agreement and the transactions contemplated thereby by the Company's stockholders, and (iv) directed that the merger agreement be submitted to the Company's stockholders for adoption. For a description of the reasons considered by the Board in resolving to recommend **FOR** adoption of the merger agreement, see the section entitled *Proposal 1: The Merger Recommendations of the Board and Reasons for the Merger*.

**The Board unanimously recommends you vote (1) FOR adoption of the merger agreement, (2) FOR approval, on a non-binding, advisory basis, of the compensation payments that will or may be paid or become payable to the Company's named executive officers and that are based on or otherwise relate to the merger and the agreements and understandings pursuant to which such compensation will or may be paid or become payable (the transaction-related named executive officer compensation), and (3) FOR the approval of the adjournment of the special meeting, if necessary or appropriate, including to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the merger agreement or in the absence of a quorum (the adjournment proposal).**

**Opinions of the Company's Financial Advisors (page 50)*****Goldman Sachs & Co. LLC***

On June 10, 2018, Goldman Sachs & Co. LLC (Goldman Sachs) delivered its opinion to the Board that, as of June 10, 2018 and based upon and subject to the factors and assumptions set forth therein, the total consideration to be paid to the holders (other than Knauf and its affiliates) of shares of common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

**The full text of the written opinion of Goldman Sachs, dated June 10, 2018, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B. Goldman Sachs provided advisory services and its opinion for the information and assistance of the Board in connection with its consideration of the transaction. The Goldman Sachs opinion is not a recommendation as to how any holder of common stock should vote with respect to the transaction or any other matter. Pursuant to an engagement letter between the Company and Goldman Sachs, the Company has agreed to pay Goldman Sachs a transaction fee that is estimated, based on the information available as of the date of announcement, to be approximately \$31 million, of which \$125,000 has been paid as of August 23, 2018, and the principal portion of which is contingent upon consummation of the transaction.**

For further information, see the section entitled *Proposal 1: The Merger Opinions of the Company's Financial Advisors Opinion of Goldman Sachs & Co. LLC* and Annex B.

***J.P. Morgan Securities LLC***

On June 10, 2018, J.P. Morgan Securities LLC (J.P. Morgan) delivered its opinion to the Board that, as of June 10, 2018 and based upon and subject to the factors and assumptions set forth therein, the total consideration, to be paid to the holders of shares of common stock pursuant to the merger agreement was fair from a financial point of view to such holders.

**The full text of the written opinion of J.P. Morgan dated June 10, 2018, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as Annex C to this**



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proxy statement and is incorporated herein by reference. The summary of the opinion of J.P. Morgan set forth in this proxy statement is qualified in its entirety by reference to the full text of such opinion. The Company's stockholders are urged to read the opinion in its entirety. J.P. Morgan's written opinion was addressed to the Board (in its capacity as such) in connection with and for the purposes of its evaluation of the transaction, was directed only to the consideration to be paid in the transaction and did not address any other aspect of the transaction. J.P. Morgan expressed no opinion as to the fairness of the consideration to the holders of any class of securities, creditors or other constituencies of the Company or as to the underlying decision by the Company to engage in the transaction. The issuance of J.P. Morgan's opinion was approved by a fairness committee of J.P. Morgan. The opinion does not constitute a recommendation to any stockholder of the Company as to how such stockholder should vote with respect to the transaction or any other matter. Pursuant to an engagement letter between the Company and J.P. Morgan, J.P. Morgan received a fee from the Company of \$3 million in connection with the delivery of its opinion and the Company has agreed to pay J.P. Morgan a transaction fee that is estimated, based on the information available as of the date of announcement, to be approximately \$31 million, against which the opinion fee will be credited, upon the consummation of the transaction.

For further information, see the section entitled *Proposal 1: The Merger Opinions of the Company's Financial Advisors Opinion of J.P. Morgan Securities LLC* and *Annex C*.

**Interests of Our Directors and Executive Officers in the Merger (page 63)**

In considering the recommendation of the Board that you vote **FOR** adoption of the merger agreement, you should be aware that the directors and executive officers of the Company have potential interests in the proposed merger that may be different from or in addition to the interests of our stockholders generally. The Board was aware of these interests and considered them, among other matters, in making its recommendation that you vote **FOR** adoption of the merger agreement. These interests include:

Vesting and payment of all outstanding Company stock options, Company RSU Awards, Company MSU Awards and Company Performance Share Awards will be accelerated upon completion of the merger. In addition, holders of such awards will receive an amount in cash equal to the product of the number of shares of our common stock earned or subject to such award, multiplied by the closing consideration (less, for Company stock options, the exercise price) as promptly as practicable, but in no event later than 15 calendar days after the effective time of the merger; provided that to the extent any such Company RSU Award, Company MSU Award or Company Performance Share Award constitutes nonqualified deferred compensation subject to Section 409A of the Code, such cash payment will be paid in accordance with the applicable award's terms and at the earliest time permitted under the terms of such award that will not result in the application of a tax or penalty under Section 409A of the Code.

Any Company DSU Awards held in notional accounts by non-employee directors will be converted into a right to receive a cash payment equal to the product of (i) the number of shares of our common stock deemed to be held in the notional account immediately before the effective time of the merger, multiplied by (ii) the closing consideration, at the earliest time permitted under the applicable award agreement and Section 409A of the Code following termination of the director's service with the Company.

While holders of Company RSU Awards and Company DSU Awards will be entitled to receive the conditional special dividend as a dividend equivalent pursuant to the terms of the awards, the Company will grant a Dividend Make-Whole Amount to each holder of Incentive Equity Awards outstanding as of June 10, 2018, which are not entitled to receive dividend equivalents, in the form of a cash payment in an amount equal to the product of (i) the conditional special dividend, multiplied by (ii) the number of shares of common stock that either (a) are or become vested and paid out on such Incentive Equity

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Awards in connection with the completion of the merger and did not otherwise participate in the conditional special dividend, or (b) subject to the applicability of due bill trading, are or become vested and become payable following the record date, but prior to the closing date of the merger, in each case as determined by the Company. The Dividend Make-Whole Amount will be earned upon the effective time of the merger subject to the holder of the underlying Incentive Equity Award remaining continuously employed by the Company and its subsidiaries until immediately prior to the effective time of the merger, and will be paid promptly thereafter, but in no event later than 15 days following the effective time of the merger. However, if any holder of outstanding Incentive Equity Awards terminates employment with the Company or any of its subsidiaries prior to the effective time of the merger, and any such Incentive Equity Awards remain outstanding following such termination in accordance with their terms, then such holder will still be eligible to receive a Dividend Make-Whole Amount with respect to such outstanding Incentive Equity Awards.

Any USG equity awards, other than shares of common stock or Company DSU Awards granted to directors in the ordinary course of business pursuant to the USG Corporation Stock Compensation Program for Non-Employee Directors and the USG Corporation Deferred Compensation Program for Non-Employee Directors, granted after the merger agreement was entered into and before completion of the merger will be assumed and converted into a cash-based award in connection with completion of the merger which will continue to vest in accordance with the terms of the applicable award agreement. Any such equity awards will provide for a pro-rata payment of the cash value of the award in the event of an involuntary termination of employment following completion of the merger.

Change in control severance agreements with the Company's executive officers provide for severance benefits upon a termination of employment by the Company without cause (as defined in the applicable agreement) or a resignation with good reason (as defined in the applicable agreement) within two years following completion of the merger, or a termination without cause within 120 days (or 90 days for one executive officer) prior to the effective date of the merger.

The Company's directors and executive officers are entitled to continued indemnification and insurance coverage after the merger is completed.

For a more detailed description of these interests, see the section entitled *Proposal 1: The Merger Interests of Our Directors and Executive Officers in the Merger*.

**Financing (page 63)**

The merger is not conditioned upon the receipt of financing by Knauf.

In connection with the execution of the merger agreement, on June 8, 2018, Knauf and Merger Sub entered into a debt commitment letter with UniCredit Bank AG and Commerzbank Aktiengesellschaft (the debt commitment letter), pursuant to w