SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)
For fiscal year ended December 31, 1993

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the transition period from _______________ to _______________.

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

DELAWARE	36-3329400
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
125 S. FRANKLIN STREET, CHICAGO, ILLINOIS	60606-4678
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (312) 606-4000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.10 par value	New York Stock Exchange Midwest Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange Midwest Stock Exchange
7.875% Sinking Fund Debentures, due 2004	New York Stock Exchange
Warrants	New York Stock Exchange Midwest Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes /X/ No / /

As of January 31, 1994, the aggregate market value of USG Corporation common stock held by nonaffiliates (based upon the New York Stock Exchange ("NYSE") closing prices)) was approximately $666,809,000.

As of January 31, 1994, 37,163,707 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

APPLICABLE TO:	DOCUMENT:
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.	A list of exhibits incorporated by reference is contained in this report beginning on page 123.

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PART I

ITEM 1. BUSINESS

(A) GENERAL DEVELOPMENT OF BUSINESS

United States Gypsum Company ("U.S. GYPSUM") was incorporated in 1901. USG Corporation (together with its subsidiaries, called "USG" or the "CORPORATION") was incorporated in Delaware on October 22, 1984. By a vote of stockholders at a special meeting on December 19, 1984, U.S. Gypsum became a wholly owned subsidiary of the Corporation and the stockholders of U.S. Gypsum became the stockholders of the Corporation, all effective January 1, 1985.

In July 1988, the Corporation consummated a plan of recapitalization (the "1988 RECAPITALIZATION") in part in response to an unsolicited takeover attempt. Approximately $2.5 billion in new debt was incurred by the Corporation to finance the 1988 Recapitalization, pay related costs and repay certain debt existing at that time. The 1988 Recapitalization immediately changed the Corporation's capital structure to one that was highly leveraged. At the time of the 1988 Recapitalization, the Corporation projected that it would have sufficient cash flows to meet its debt service obligations in a timely manner. However, the Corporation was adversely affected by a cyclical downturn in its construction-based markets which resulted in the Corporation's inability to achieve projected operating results and service certain debt obligations in a timely manner.

On May 6, 1993, the Corporation completed a comprehensive restructuring of its debt (the "RESTRUCTURING") through implementation of a "prepackaged" plan of reorganization (the "PREPACKAGED PLAN"). The provisions of the Prepackaged Plan were agreed upon in principle with all committees and certain institutions representing debt subject to the Restructuring in January 1993. The Corporation's Registration Statement (Registration No. 33-40136), which included a Disclosure Statement and Proxy Statement - Prospectus, was declared effective by the Securities and Exchange Commission (the "SEC") in February 1993. The solicitation process for approvals of the Prepackaged Plan was completed on March 15, 1993. The Corporation commenced a prepackaged Chapter 11 bankruptcy case in Delaware (IN RE: USG CORPORATION, Case No. 93-300) on March 17, 1993 and received the U.S. Bankruptcy Court's confirmation of the Prepackaged Plan on April 23, 1993. None of the subsidiaries of the Corporation were part of this proceeding and there was no impact on trade creditors of the Corporation's subsidiaries. Under the Prepackaged Plan, all previously existing defaults on debt obligations were waived or cured. The Corporation accounted for the Restructuring using the principles of fresh start accounting as required by AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code". Pursuant to such principles, individual assets and liabilities were adjusted to fair market value and reorganization value in excess of identifiable assets ("EXCESS REORGANIZATION VALUE") was established. Post-bankruptcy accounting rules require separate reporting of financial results for the restructured company and the predecessor company. As such, the Corporation's financial statements effective May 7, 1993 are presented under "Restructured Company" in Part II, Item 8. "Financial Statements and Supplementary Data," while financial statements for periods prior to that date are presented under "Predecessor Company." Due to the Restructuring and implementation of fresh start accounting, financial statements for the Restructured Company are not comparable to those for the Predecessor Company. However, in order to facilitate a meaningful comparison of the Corporation's operating performance, certain 1993 financial information is presented in the following Part I narratives on an annual basis. See Part II, Item 8. "Financial Statements and Supplementary Data - Predecessor Company - Notes to Financial Statements - Financial Restructuring and Fresh Start Accounting" notes for additional information on the Restructuring and implementation of fresh start accounting.

On January 7, 1994, the Corporation filed a Registration Statement (Registration No. 33-51845), as amended on February 16, 1994, pertaining to its planned public offering of 6,000,000 new shares of its common stock ("COMMON STOCK") to be sold by the Corporation (the "OFFERING") and 4,000,000 shares of Common Stock to be sold by Water Street Corporate Recovery Fund I, L.P. ("WATER STREET"). The Offering is part of a refinancing strategy which also includes (i) the placement of $150 million principal amount of new senior notes due 2001 with certain institutional investors (the "NOTE PLACEMENT") and (ii) certain amendments (the "CREDIT AGREEMENT AMENDMENTS" and, together with the Offering and the Note Placement, the "TRANSACTIONS") to the Credit Agreement. The Credit Agreement Amendments will, among other things, increase the size of the Corporation's revolving credit facility (the "REVOLVING CREDIT FACILITY") by $70 million, amend existing mandatory Bank Term Loan prepayment provisions to allow the Corporation, upon the achievement of certain financial tests, to retain additional free cash flow for capital expenditures and for the purchase of its public debt. Certain Credit Agreement Amendments are contingent on the consummation of the Offering. See Part II, Item 8. "Financial Statements and Supplementary Data - Restructured Company - Notes to Financial Statements - Subsequent Event" note for more information on the Transactions.

(B) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Corporation participates in three industry segments: Gypsum Products, Interior Systems and Building Products Distribution. Selected financial information for each of the Corporation's industry segments is presented below under "(c) Narrative Description of Business." See Part II, Item 8. "Financial Statements and Supplementary Data - Notes to Financial Statements - Geographic and Industry Segments" notes for both the Restructured Company and the Predecessor Company for additional financial information and other related disclosures about the Corporation's industry and geographic segments.

(C) NARRATIVE DESCRIPTION OF BUSINESS

Through its subsidiaries, USG is a leading manufacturer of building materials in North America which produces a wide range of products for use in residential and nonresidential construction, repair and remodeling, as well as products used in certain industrial processes. U.S. Gypsum is the largest producer of gypsum wallboard in the United States and accounted for approximately one-third of total domestic gypsum wallboard sales in 1993. USG Interiors, Inc. ("USG INTERIORS") is a leading supplier of interior ceiling, wall and floor products used primarily in commercial applications. In 1993, USG Interiors was the largest producer of ceiling grid and the second largest producer of ceiling tile in the United States, accounting for over one-half and approximately one-third of total domestic sales of such products, respectively. L&W Supply Corporation ("L&W SUPPLY") is the largest distributor of wallboard and related products in the United States and in 1993 distributed approximately 22% of U.S. Gypsum's wallboard production. In addition to its United States operations, the Corporation's 76% owned subsidiary, CGC Inc. ("CGC"), is the largest manufacturer of gypsum products in Eastern Canada and the Corporation's USG International, Ltd. ("USG INTERNATIONAL") unit supplies interior systems and gypsum wallboard products in the Pacific, Europe and Latin America. In the year ended December 31, 1993, the Corporation had net sales of $1,916 million and generated EBITDA of $218 million.

U.S. INDUSTRY OVERVIEW

USG's consolidated financial performance is largely influenced by changes in the three major components of the construction industry in the United States: new residential construction, new nonresidential construction, and repair and remodel activity. In recent years, structural changes in residential construction activity combined with growth in the repair and remodel component have partially mitigated the impact of the cyclical demand of the overall new construction components.

NEW RESIDENTIAL AND NONRESIDENTIAL CONSTRUCTION

Demand for the Corporation's products has historically been influenced primarily by new residential (single and multi-family homes) and nonresidential (offices, schools, stores, and other institutions) construction. Construction activity is directly influenced by a variety of economic variables. In the short term, the new residential segment is characterized by fluctuating activity levels as builders and buyers respond to changes in funding costs, new home prices, and the availability of new construction financing. Over the medium to long term, new residential construction activity reflects the demand generated by household formations, the home ownership rate, removals of housing stock, and the growth of personal income.

Although new residential construction remains the largest single source of demand for gypsum wallboard in the United States, it has declined significantly as a percentage of gypsum wallboard demand since 1986 (a year in which total gypsum wallboard shipments were comparable to 1993 levels). Residential construction has a nominal impact on demand for Interiors Systems products. The following table sets forth demand for gypsum wallboard in the United States by end-use segment as estimated by U.S. Gypsum based on publicly available data, internal surveys and data from the Gypsum Association, an industry trade group. Management estimates that the distribution of U.S. Gypsum's sales volume to these four end-use segments is generally proportional to industry demand.

	1993	1986
Residential construction	48%	54%
Nonresidential construction	9	10
Repair and remodel	36	30
Export/other	7	6

Over recent economic cycles, demand for gypsum wallboard has been favorably impacted by a shift toward more single family housing within the new residential construction segment and an increase in the average single family home size. New single family homes, which typically require twice as much wallboard as multi-family homes, accounted for 87% of total housing starts in 1993, as compared to 65% in 1986. Additionally, the size of the average single family home in the United States increased approximately 15% to 2,095 square feet in 1992 from 1,825 square feet in 1986. Largely as a result of these factors, United States industry shipments of gypsum wallboard were a record 21.6 billion square feet in 1993, as compared to 21.3 billion in 1986, despite an approximate 28% decline in the number of housing starts from 1.8 million units in 1986 to 1.3 million units in 1993, as depicted in the following chart.

GYPSUM WALLBOARD INDUSTRY SHIPMENTS
AND TOTAL HOUSING STARTS

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Gypsum Wallboard Industry Shipments, in billions of square feet	13.3	17.1	19.2	20.2	21.3	21.4	21.3	21.3	20.7	18.4	20.3	21.6
Housing Starts, in thousands of units	1,062	1,703	1,750	1,742	1,805	1,621	1,488	1,376	1,193	1,014	1,200	1,285

SOURCES: HOUSING STARTS ARE BASED ON DATA PUBLISHED BY THE U.S. BUREAU OF THE CENSUS. GYPSUM WALLBOARD INDUSTRY SHIPMENTS ARE BASED ON DATA PUBLISHED BY THE GYPSUM ASSOCIATION.

Nonresidential construction responds less quickly to changes in interest rates than residential construction because long-term financing is normally arranged in advance of the commencement of major building projects. In the longer term, nonresidential construction activity levels are also affected by the general rate of economic growth, the rate of new job formation and population shifts. Continued weakness in the nonresidential construction segment has negatively impacted demand for the products manufactured by both U.S. Gypsum and USG Interiors. Demand for USG Interiors' products is particularly dependent on new nonresidential construction activity. Management estimates that approximately one-half of USG Interiors' 1993 sales were in the new nonresidential construction segment as compared to approximately two-thirds in 1986. In recent years, nonresidential construction demand has accounted for approximately 10% of gypsum wallboard industry demand in the United States.

REPAIR AND REMODEL

Based on data published by the U.S. Bureau of The Census, the size of the total residential repair and remodel market grew to $104 billion in 1992 from $91 billion in 1986 and $46 billion in 1980. Although data on nonresidential repair and remodel activity is not readily available, management believes that this segment grew significantly during the 1980s. The growth of the repair and remodel market is primarily due to the aging of housing stock, remodeling of existing buildings and tenant turnover in commercial space. The median age of housing stock was 27 years in 1990, and the National Association of Homebuilders forecasts that the median age will increase to 32 years by 2000. Management believes that the continued aging of housing stock will contribute to further growth in the repair and remodel segment. In addition, management believes that the increase in the number of commercial buildings over the last decade will provide a greater base for nonresidential repair and remodel activity in the future, as building owners or tenants replace ceiling, wall and floor systems as part of the tenant turnover process. Demand in the repair and remodel component tends to be more stable than in new construction, although it does fluctuate somewhat in response to general economic conditions.

Management estimates that repair and remodel demand for gypsum wallboard has increased more than 22% since 1986 and, in 1993, accounted for 36% of total demand for gypsum wallboard in the United States. Management estimates that approximately one-half of USG Interiors' 1993 sales were to the nonresidential repair and remodel segment.

GYPSUM PRODUCTS

BUSINESS

The Gypsum Products segment consists primarily of the gypsum operations of U.S. Gypsum in the United States, CGC in Canada and USG International in Mexico.

CGC is the largest manufacturer of gypsum wallboard in Eastern Canada. Management estimates that industry sales in Eastern Canada, including the Toronto and Montreal metropolitan areas, represent approximately two-thirds of total Canadian sales volume. In 1993, CGC accounted for approximately 45% of industry sales in Eastern Canada.

PRODUCTS

The Gypsum Products segment manufactures and markets building and industrial products used in a variety of applications. Gypsum panel products are used to finish the interior walls and ceilings in residential, commercial and mobile home construction. These products provide aesthetic as well as sound and fire retarding value. The majority of these products are sold under the "SHEETROCK" brand name. Also sold under the "SHEETROCK" brand name is a line of joint compounds used for finishing wallboard joints. The "DUROCK" line of cement board and accessories is produced to provide fire-resistant and water damage resistant assemblies for both interior and exterior construction. The Corporation also produces a variety of plaster products used to provide a custom finish for residential and commercial interiors. Like "SHEETROCK" brand wallboard, these products provide aesthetic and sound and fire retarding value. Plaster products are sold under the trade names of "RED TOP," "IMPERIAL" and "DIAMOND." The Corporation also produces gypsum-based products sold to agricultural and industrial customers for use in a number of applications, including soil conditioning, road repair, fireproofing and ceramics.

FINANCIAL PERFORMANCE

Summary financial results of the Gypsum Products segment are outlined in the table below. Such results are not adjusted for intersegment sales eliminations and corporate expenses. Operating profit in 1993 for the Gypsum Products segment is not comparable to prior years due to $51 million of non-cash amortization of Excess Reorganization Value.

	YEARS ENDED DECEMBER 31,					
	1993	1992	1991	1990	1989	1988
	(DOLLARS IN MILLIONS)					
Net sales	$1,165	$1,068	$1,011	$1,134	$1,263	$1,367
Operating profit	90	85	93	148	227	266
EBITDA	179	123	131	194	266	307
EBITDA margin	15.4%	11.5%	13.0%	17.1%	21.1%	22.5%
Capital expenditures ..	30	31	25	25	41	60

For additional information on the Corporation's results by industry segment, including intersegment sales eliminations and corporate expenses, see Part II, Item 8. "Financial Statements and Supplementary Data - Notes to Financial Statements - Geographic and Industry Segments" notes for both the Restructured and Predecessor Companies.

MANUFACTURING

Gypsum and related products are produced by the Corporation at 42 plants located throughout the United States, Eastern Canada and in central Mexico. The Corporation believes several factors contribute to its low delivered cost, including (i) the vertical integration of its key raw materials (gypsum and paper); (ii) the technical expertise provided by its extensive research and development efforts and its experienced employees and (iii) the proximity of its plants to major metropolitan areas.

USG's vertically integrated gypsum and paper operations provide several cost and quality advantages. Since the Corporation obtains substantially all of its gypsum requirements from its own quarries and mines, it controls the cost, quality and continuity of its supply. These factors are vital to producing wallboard of a consistently high quality at a low cost. The Corporation's geologists estimate that recoverable rock reserves are sufficient for more than 30 years of operation based on the Corporation's average annual production of crude gypsum during the past five years. Proven reserves contain approximately 243 million tons, of which approximately 69% are located in the United States and 31% in Canada. Additional reserves of approximately 153 million tons exist on three properties not in operation. The Corporation's total average annual production of crude gypsum in the United States and Canada during the past five years was 9.4 million tons.

USG owns and operates seven modern paper mills located across the United States for efficient distribution of paper to virtually all of its wallboard plants. These mills have sufficient capacity to satisfy virtually all of the Corporation's expected paper needs for the foreseeable future. All these mills presently are designed to produce paper utilizing 100% recycled waste paper fiber as opposed to more costly virgin pulp. Vertical integration in paper ensures a continuous supply of high quality paper that is tailored to the specific needs of USG's wallboard production processes.

As the leading producer of gypsum products for over 90 years, USG has developed extensive knowledge of gypsum and the processes used in making its products. Combined with USG's experienced work force, USG's technical expertise provides significant cost efficiencies in the production of existing products and development of new ones. USG maintains the largest research and development facility in the gypsum industry in Libertyville, Illinois which conducts fire and structural testing and product and process development. Research and development activities involve technology related to gypsum, cellulosic fiber and cement as the primary raw materials on which panel products and systems, such as gypsum board and cement board, are based. Related technologies are those pertaining to joint compounds and textures for wallboard finishing, specialty plaster products for both construction and industrial applications, coatings and latex polymers.

The number and location of the Corporation's gypsum plants enhance its cost position by minimizing the distance and the transportation costs to major metropolitan areas. Transportation costs can be a significant part of total delivered cost of gypsum products.

MARKETING AND DISTRIBUTION

Distribution is carried out through L&W Supply's 131 distribution centers located in 34 states, as well as mass merchandisers and other retailers, building material dealers, contractors and distributors. Sales of gypsum products are seasonal to the extent that sales are generally greater from spring through the middle of autumn than during the remaining part of the year.

COMPETITION

The Corporation competes in North America as the largest of 18 producers of gypsum wallboard products and, in 1993, accounted for approximately one-third of total gypsum wallboard sales in the United States. In 1993, U.S. Gypsum's shipments of gypsum wallboard totaled 7.3 billion square feet, the highest in the Corporation's history, compared with total domestic industry shipments of 21.6 billion square feet which is also a record level. Principal competitors in the United States are: National Gypsum Company, which emerged from Chapter 11 bankruptcy in July 1993, The Celotex Corporation, which has operated under Chapter 11 of the Bankruptcy Code since 1990, Domtar, Inc., Georgia-Pacific Corporation and several smaller, regional competitors. Major competitors of CGC in Eastern Canada include Domtar, Inc. and Westroc Industries Ltd.

INTERIOR SYSTEMS

BUSINESS

The Interior Systems segment consists of USG Interiors in the United States, USG International in Europe, the Pacific and Latin America and CGC in Canada.

The Corporation has increased its emphasis on the interior systems business since 1986 when Donn Inc. ("DONN"), a manufacturer of ceiling suspension systems ("grid") and other interior products, was acquired. Already second behind Armstrong World Industries, Inc. in the ceiling tile market, the acquisition of Donn positioned the Corporation as the worldwide leader in ceiling suspension systems and the only company to offer complete pre-designed, pre-engineered and fully integrated ceiling systems. With the acquisition of Donn, USG Interiors was established as a separate subsidiary to combine the operations of Donn and USG Acoustical Products Company, formerly part of U.S. Gypsum and a leading producer of mineral fiber ceiling products.

USG's international position was enhanced in late 1987 when it began to export ceiling tile to Europe to complement Donn's established grid business and to capitalize on the strength of its existing distribution channels. By combining ceiling tile and grid as a system for distributors and contractors, USG has used its leading position in grid to advance sales of ceiling tile. As a result, management estimates that USG's share of the European ceiling tile market has grown to approximately 8%. International sales are managed through USG International on a regional basis consisting of Europe, the Pacific and Latin America.

CGC manufactures and markets ceiling products and wall and floor systems and accounted for over one-half of Canadian grid sales in 1993. CGC is the second largest marketer of ceiling tile in Canada, behind Armstrong World Industries, Inc., and accounted for approximately 30% of Canadian sales of such products in 1993. CGC markets ceiling tile produced by USG Interiors.

PRODUCTS

The Interior Systems segment manufactures and markets ceiling grid and ceiling tile, access floor systems, wall systems and mineral wool insulation and soundproofing products. USG's integrated line of ceiling products provides qualities such as sound absorption, fire retardation, and convenient access to the space above the ceiling for electrical and mechanical systems, air distribution and maintenance. The Corporation believes its ability to provide custom-designed and specially fabricated ceiling solutions to meet specific job design installation conditions is increasingly attractive to architects, designers and building owners. USG Interiors' significant trade names include the "ACOUSTONE" and "AURATONE" brands of ceiling tile and the "DX," "FINELINE," "CENTRICITEE" and "DONN" brands of ceiling grid.

USG's wall systems provide the versatility of an open floor plan with the privacy of floor-to-ceiling partitions which are compatible with leading office equipment and furniture systems. Wall systems are designed to be installed quickly and reconfigured easily. In addition, USG manufactures a line of access floor systems that permit easy access to wires and cables for repairs, modifications, and upgrading of electrical and communication networks as well as convenient movement of furniture and equipment.

FINANCIAL PERFORMANCE

Summary financial results for the Interior Systems segment are outlined in the table below. Such results are not adjusted for intersegment sales eliminations and corporate expenses. Operating profit/(loss) in 1993 for the Interior Systems segment is not comparable to prior years due to $60 million of non-cash amortization of Excess Reorganization Value.

	YEARS ENDED DECEMBER 31,					
	1993	1992	1991	1990	1989	1988
	(Dollars in millions)					
Net sales	$550	$548	$576	$624	$610	$599
Operating profit/(loss)	(17)	41	62	78	89	83
EBITDA	57	59	78	98	105	98
EBITDA margin	10.4%	10.8%	13.5%	15.7%	17.2%	16.4%
Capital expenditures	9	14	22	37	33	17

For additional information on the Corporation's results by industry segment, including intersegment sales eliminations and corporate expenses, see Part II, Item 8. "Financial Statements and Supplementary Data - Notes to Financial Statements - Geographic and Industry Segments" notes for both the Restructured and Predecessor Companies.

MANUFACTURING

Interior Systems products are manufactured at 16 plants throughout North America, including 5 ceiling tile plants and 4 ceiling grid plants. The remaining plants produce other interior products and raw materials for ceiling tile and grid. Principal raw materials used in the production of Interior Systems products include mineral fiber, steel, aluminum extrusions and high-pressure laminates. Certain of these raw materials are produced internally, while others are obtained from various outside suppliers. Shortages of raw materials used in this segment are not expected.

USG Interiors maintains its own research and development facility in Avon, Ohio, which provides product design, engineering and testing services in addition to manufacturing development, primarily in metal forming, with tool and machine design and construction services. Additional research and development is carried out at the Corporation's research and development center in Libertyville, Illinois and at its "Solutions Center" -sm- in Chicago.

MARKETING AND DISTRIBUTION

Interiors Systems products are sold primarily in markets related to the new construction and renovation of commercial buildings as well as the retail market for small commercial contractors. Marketing and distribution to large commercial users is conducted through a network of distributors and installation contractors as well as through L&W Supply and is oriented toward providing integrated interior systems at competitive price levels. The Corporation emphasizes educational and promotional materials designed to influence decision makers who play a significant role in choosing material suppliers, such as interior designers, contractors and facility managers. To this end, USG Interiors maintains the "Solutions Center"-sm- located adjacent to Chicago's Merchandise Mart which is used for product displays, educational seminars on products and new product design and development. In recent years, the Corporation has increased its emphasis on the retail market and as a result now sells its products to seven of the ten largest building products retailers in the United States.

COMPETITION

The Corporation estimates that it is the world's largest manufacturer of ceiling suspension systems with approximately 40% of worldwide sales of such products. USG's most significant competitor is Chicago Metallic Corporation, which participates in the U.S. and European markets. Other competitors in ceiling grid include W.A.V.E. (a joint venture of Armstrong World Industries, Inc. and National Rolling Mills). The Corporation estimates that it accounts for approximately one-third of sales of acoustical ceiling tile to the U.S. market. Principal global competitors include Armstrong World Industries, Inc. (the largest manufacturer), Odenwald of West Germany and the Celotex Corporation.

BUILDING PRODUCTS DISTRIBUTION

BUSINESS

The Building Products Distribution segment consists of the operations of the Corporation's L&W Supply subsidiary. L&W Supply is the largest distributor of gypsum wallboard and related building products for residential and nonresidential construction in the United States. L&W Supply distributes approximately 9% of all gypsum wallboard in the United States (including approximately 22% of U.S. Gypsum's wallboard production). Wallboard accounts for approximately 47% of L&W Supply's total net sales.

Although L&W Supply specializes in distribution of gypsum wallboard, joint compound and other products manufactured primarily by U.S. Gypsum, it also distributes USG Interiors' products such as acoustical ceiling tile and ceiling grid and products of other manufacturers, including drywall metal, insulation, roofing products and accessories.

L&W Supply was founded in 1971 by U.S. Gypsum to address what management perceived as a growing demand in the construction industry for a specialized delivery service for construction materials, especially gypsum wallboard. U.S. Gypsum management believed the construction industry could benefit from a service-oriented organization that would deliver less than truckload quantities of construction materials to a job site and place them in the areas where the work was being done, thereby reducing or eliminating the need for handling by contractors. To perform this service, U.S. Gypsum established a number of distribution centers that could stock construction materials and be able to deliver relatively large quantities with short lead times.

L&W Supply has grown significantly over the past 23 years and now has 131 distribution centers located in 34 states.

FINANCIAL PERFORMANCE

Summary financial results for the Building Products Distribution segment are outlined in the table below. Such results are not adjusted for corporate expenses and there are no intersegment sales eliminations for this segment. Operating profit in 1993 for the Building Products Distribution segment is not comparable to prior years due to $2 million of non-cash amortization of Excess Reorganization Value.

	YEARS ENDED DECEMBER 31,					
	1993	1992	1991	1990	1989	1988
	(Dollars in millions)					
Net sales	$528	$464	$424	$478	$485	$483
Operating profit..................	3	3	-	4	7	12
EBITDA............................	7	5	4	12	16	23
EBITDA margin.....................	1.3%	1.1%	0.9%	2.5%	3.3%	4.8%
Capital expenditures..............	2	3	1	1	1	3

For additional information on the Corporation's results by industry segment, including intersegment sales eliminations and corporate expenses, see Part II, Item 8. "Financial Statements and Supplementary Data - Notes to Financial Statements - Geographic and Industry Segments" notes for both the Restructured and Predecessor Companies.

DISTRIBUTION CENTERS

L&W Supply leases approximately 80% of its facilities from third parties, which management believes provides it with the flexibility to enter and exit fluctuating market areas. Usually, initial leases are from three to five years with a five-year renewal option. Facilities are located in virtually every major metropolitan area in the United States.

A typical L&W Supply facility has approximately 12,000 square feet of warehouse space, 1,500 square feet of office space and is located on 1.5 paved acres of land in prime industrial areas with good interstate highway access. Each center is equipped with at least one flatbed truck, a boom truck and, in some cases, a towable forklift. Boom trucks are standard flatbed trucks with telescoping hydraulic booms installed on the front of the truckbed. By using either the telescoping boom or the towable forklift, L&W Supply employees are able to place wallboard, joint compound and other materials in various locations on a job site.

COMPETITION

L&W Supply's closest competitor, Gypsum Management Supply, is an independent distributor with approximately 70 locations in the southern, central and western United States. There are several regional competitors, such as Gypsum Drywall Management Association in the southern United States and Strober Building Supply in the northeastern United States. L&W Supply's many local competitors include lumber dealers, hardware stores, mass merchandisers, home improvement centers, acoustical tile distributors and manufacturers.

Sales are seasonal to the extent that sales are generally greater from the middle of spring through the middle of autumn than during the remaining part of the year.

(D) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

See Part II, Item 8. "Financial Statements and Supplementary Data - Notes to Financial Statements - Geographic and Industry Segments" notes for both the Restructured and Predecessor Companies.

ITEM 2. PROPERTIES

The Corporation's plants, mines, transport ships, quarries and other facilities are located in North America, Europe, Australia, New Zealand, and Malaysia. Many of these facilities are operating at or near full capacity. All facilities and equipment are in good operating condition and, in management's judgment, sufficient expenditures have been made annually to maintain them. The locations of the production properties of the Corporation's subsidiaries, grouped by industry segment, are as follows (plants are owned unless otherwise indicated):

GYPSUM PRODUCTS

GYPSUM BOARD AND OTHER GYPSUM PRODUCTS

UNITED STATES		CANADA
(*)(**)Baltimore, MD	* Norfolk, VA	Hagersville, Ontario
* Boston (Charlestown), MA	Oakfield, NY	* Montreal, Quebec
* Detroit (River Rouge), MI	Plaster City, CA	* St. Jerome, Quebec
** East Chicago, IN	Plasterco (Saltville), VA	
Empire, NV	* Santa Fe Springs, CA	Mexico
Fort Dodge, IA	Shoals, IN	*** Puebla, Puebla
* Fremont, CA	Sigurd, UT	
(*)(**)Galena Park, TX	Southard, OK	
* Gypsum, OH	Sperry, IA	
* Jacksonville, FL	* Stony Point, NY	
(*)(**)New Orleans, LA	Sweetwater, TX	

Gypsum plants utilize locally mined or quarried gypsum rock unless noted as follows:

* These plants use rock from quarry operations at Alabaster (Tawas City), Michigan; Empire, Nevada; Plaster City, California; Little Narrows and/or Windsor, Nova Scotia; or Harbour Head, Jamaica, an outside source.

** These plants purchase synthetic gypsum from outside sources.

*** This plant purchases all gypsum rock from outside sources.

JOINT COMPOUND

Surface preparation and joint treatment products are produced in plants located at Chamblee, Georgia; Dallas, Texas; East Chicago, Indiana; Fort Dodge, Iowa; Gypsum, Ohio; Jacksonville, Florida; Port Reading, New Jersey (leased); Sigurd, Utah; Tacoma, Washington (leased); Torrance, California; Hagersville, Ontario, Canada; Montreal, Quebec, Canada; Puebla, Mexico; and Selangor, Malaysia (leased).

PAPER

Paper for gypsum board is manufactured at Clark, New Jersey; Galena Park, Texas; Gypsum, Ohio; Jacksonville, Florida; North Kansas City, Missouri; Oakfield, New York; and South Gate, California.

OCEAN VESSELS

Gypsum Transportation Limited, a wholly owned subsidiary of the Corporation, headquartered in Bermuda, owns and operates a fleet of three self-unloading ocean vessels. Under contract of affreightment, these vessels haul gypsum rock from Nova Scotia to the East Coast and Gulf port plants of U.S. Gypsum. Excess ship time, when available, is offered for charter on the open market.

MISCELLANEOUS

A mica-processing plant is located at Spruce Pine, North Carolina; perlite ore is produced at Grants, New Mexico. Metal lath, plaster and drywall accessories and light gauge steel framing products are manufactured at Puebla, Mexico. Metal safety grating products are manufactured at Burlington, Ontario, Canada (leased); and Delta, British Columbia, Canada (leased). Various other products are manufactured at La Mirada, California (adhesives); and New Orleans, Louisiana (lime products).

INTERIOR SYSTEMS

CEILING TILE

Acoustical ceiling tile and panels are manufactured at Cloquet, Minnesota; Greenville, Mississippi; Gypsum, Ohio; Walworth, Wisconsin; San Juan Ixhautepec, Mexico; and Aubange, Belgium.

CEILING GRID

Ceiling grid products are manufactured at Cartersville, Georgia; Stockton, California; Westlake, Ohio; Auckland, New Zealand (leased); Dreux, France; Oakville, Ontario, Canada; Peterlee, England (leased); Selangor, Malaysia (leased); and Viersen, Germany. A coil coater and slitter plant used in the production of ceiling grid is also located in Westlake, Ohio.

ACCESS FLOOR SYSTEMS

Access floor systems products are manufactured at Red Lion, Pennsylvania; Dreux, France; Peterlee, England (leased); and Selangor, Malaysia (leased).

MINERAL WOOL

Mineral wool products are manufactured at Birmingham, Alabama; Gypsum, Ohio; Red Wing, Minnesota; Tacoma, Washington; Wabash, Indiana; Walworth, Wisconsin; and Weston, Ontario, Canada.

WALL SYSTEMS

Wall system products are manufactured at Medina, Ohio (leased).

ITEM 3. LEGAL PROCEEDINGS

See Part II, Item 8. "Financial Statements and Supplementary Data - Notes to Financial Statements - Litigation" for information on legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 1993.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

(a) See Item 8. "Financial Statements and Supplementary Data - Selected Quarterly Financial Data" for information with respect to the principal market on which the Corporation's Common Stock is traded and the range of high and low closing market prices.

(b) As of January 31, 1994, there were 14,702 stockholders of record of the Corporation's Common Stock.

(c) There have been no dividends declared since the third quarter of 1988. The Credit Agreement and certain other debt instruments prohibit the payment of cash dividends for the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

USG CORPORATION
COMPARATIVE FIVE-YEAR SUMMARY (A) (UNAUDITED)
(DOLLARS IN MILLIONS,EXCEPT PER SHARE DATA)

	MAY 7 THROUGH DEC. 31, 1993(b)	JANUARY 1 THROUGH MAY 6, 1993	YEARS ENDED DECEMBER 31, 1992	1991	1990	1989
EARNINGS STATEMENT DATA:						
Net sales.	$ 1,325	$ 591	$ 1,777	$ 1,712	$ 1,915	$ 2,007
Gross profit	263	109	317	327	416	501
Selling and administrative expenses. . . .	149	71	218	194	203	209
Amortization of Excess Reorganization Value.	113	-	-	-	-	-
Operating profit	1	38	99	133	195	292
Interest expense	92	86	334	333	292	297
Interest income.	(4)	(2)	(12)	(11)	(8)	(10)
Other (income)/expense, net.	(8)	6	1	5	5	15
Reorganization items	-	(709)	-	-	-	-
Earnings/(loss) from continuing operations before extraordinary gain/(loss) and changes in accounting principles	(108)	640	(191)	(141)	(54)	20
Extraordinary gain/(loss), net of taxes. .	(21)	944	-	-	-	-
Cumulative effect of accounting changes. .	-	(150)	-	-	-	-
Net earnings/(loss).	(129)	1,434	(191)	(161)	(90)	28
Net earnings/(loss) per common share (c) .	(3.46)					
BALANCE SHEET DATA (AS OF THE END OF THE PERIOD):						
Working capital/(deficit).	121	217	(2,608)	(2,372)	(2,198)	51
Current ratio.	1.24	1.74	.21	.21	.24	1.09
Property, plant and equipment, net	754	767	800	819	825	837
Total assets	2,163	2,194	1,659	1,626	1,675	1,585
Total debt (d)	1,531	1,556	2,711	2,660	2,600	2,428
Total stockholders' equity/(deficit) . . .	(134)	4	(1,880)	(1,680)	(1,518)	(1,438)
OTHER INFORMATION:						
EBITDA	155	63	159	194	280	361
Capital expenditures	29	12	49	49	64	76
Gross margin %	19.8	18.4	17.8	19.1	21.7	25.0
EBITDA margin %.	11.7	10.7	8.9	11.3	14.6	18.0
Market value per common share (c).	29 1/4					
Average number of employees.	11,900	11,750	11,850	11,800	12,700	13,400

(A) RESULTS REFLECT DAP (SOLD IN 1991), THE MARLITE DIVISION OF USG INTERIORS (SOLD IN 1989) AND WISS, JANNEY, ELSTNER ASSOCIATES, INC. (SOLD IN 1989) AS DISCONTINUED OPERATIONS.

(B) DUE TO THE RESTRUCTURING AND IMPLEMENTATION OF FRESH START ACCOUNTING, THE FINANCIAL STATEMENTS EFFECTIVE MAY 7, 1993 FOR THE RESTRUCTURED COMPANY ARE NOT COMPARABLE TO FINANCIAL STATEMENTS PRIOR TO THAT DATE. SEE ITEM 8 "FINANCIAL STATEMENTS & SUPPLEMENTARY DATA" - PREDECESSOR COMPANY - NOTES TO FINANCIAL STATEMENTS - FINANCIAL RESTRUCTURING AND FRESH START ACCOUNTING NOTES FOR MORE INFORMATION ON THE RESTRUCTURING AND IMPLEMENTATION OF FRESH START ACCOUNTING.

(C) PER-SHARE INFORMATION FOR PERIODS PRIOR TO MAY 7, 1993 IS OMITTED BECAUSE, DUE TO THE RESTRUCTURING AND IMPLEMENTATION OF FRESH START ACCOUNTING, IT IS NOT MEANINGFUL. MARKET VALUE PER COMMON SHARE OF $29 1/4 WAS THE CLOSING STOCK PRICE ON DECEMBER 31, 1993.

(D) TOTAL DEBT IS SHOWN AT PRINCIPAL AMOUNTS FOR ALL PERIODS PRESENTED. THE CARRYING AMOUNTS OF TOTAL DEBT (NET OF UNAMORTIZED REORGANIZATION DISCOUNT) AS REFLECTED ON THE CORPORATION'S BALANCE SHEETS AS OF DECEMBER 31, 1993 AND MAY 6, 1993 ARE $1,476 MILLION AND $1,461 MILLION, RESPECTIVELY.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

On May 6, 1993, the Corporation completed the Restructuring. Due to the Restructuring and implementation of fresh start accounting, the Corporation's financial statements effective May 7, 1993 are not comparable to financial statements for periods prior to that date. See Item 8. "Financial Statements and Supplementary Data - Predecessor Company - Notes to Financial Statements - Financial Restructuring and Fresh Start Accounting" notes for information on the Restructuring and implementation of fresh start accounting.

To facilitate a meaningful comparison of the Corporation's operating performance, the following discussion and analysis is presented on an annual basis. Consequently, 1993 information presented below does not comply with post-bankruptcy accounting rules which require separate reporting for the restructured company and the predecessor company. Included in the following discussion are comparisons of earnings before interest, taxes, depreciation, depletion, amortization, and additionally for 1993, non-cash postretirement charges, reorganization items, extraordinary gain/(loss) and changes in accounting principles ("EBITDA"). The Corporation believes EBITDA is helpful in understanding cash flow generated from operations that is available for taxes, debt service and capital expenditures. In addition, EBITDA facilitates the monitoring of covenants related to certain long-term debt and other agreements entered into in conjunction with the Restructuring. EBITDA should not be considered by investors as an alternative to net earnings as an indicator of the Corporation's operating performance or to cash flows as a measure of its overall liquidity.

CONSOLIDATED RESULTS OF OPERATIONS (DOLLARS IN MILLIONS)	YEARS ENDED DECEMBER 31, 1993	1992	1991
NET SALES	$ 1,916	$ 1,777	$ 1,712
GROSS PROFIT	372	317	327
% OF NET SALES	19.4%	17.8%	19.1%
Selling and administrative expenses	220	218	194
% OF NET SALES	11.5%	12.3%	11.3%
Amortization of Excess Reorganization Value	113	-	-
OPERATING PROFIT	39	99	133
CALCULATION OF EBITDA:			
Operating profit	$ 39	$ 99	$ 133
Amortization of Excess Reorganization Value	113	-	-
Depreciation and depletion	54	58	57
Other	12	2	4
EBITDA	218	159	194
% OF NET SALES	11.4%	8.9%	11.3%

RESULTS OF OPERATIONS BY GEOGRAPHIC AREA (DOLLARS IN MILLIONS)	NET SALES 1993	1992	1991	EBITDA 1993	1992	1991
United States:						
Gypsum Products	$ 986	$ 889	$ 835	$ 148	$ 99	$ 93
Interior Systems	376	368	386	45	47	59
Building Products Distribution	528	464	424	7	5	4
Corporate	-	-	-	(25)	(28)	(19)
Intrasegment eliminations	(236)	(216)	(212)	-	-	-
Total United States	1,654	1,505	1,433	175	123	137
Total Canada	143	149	169	17	14	29
Total Other Foreign	208	208	193	26	22	28
Transfers between geographic areas	(89)	(85)	(83)	-	-	-
Total USG Corporation	1,916	1,777	1,712	218	159	194

CONSOLIDATED RESULTS

Net sales increased for the second consecutive year in 1993, up $139 million, or 7.8%, over the prior year. Net sales in 1992 increased $65 million, or 3.8%, over the 1991 level. The primary factor for the improved levels of sales has been increased demand for domestic gypsum wallboard which led to all-time record shipments in 1993 and seven consecutive quarters of improving prices. These trends reflect the continuing recovery in domestic residential construction as evidenced by an approximate 7% increase in U.S. housing starts in 1993 compared with the 1992 level, which was 18% higher than 1991 U.S. housing starts.

As a percentage of net sales, gross profit in 1993 improved to 19.4% from 17.8% in 1992, reflecting increased gypsum wallboard pricing. In 1992, gross profit as a percentage of net sales decreased from the 1991 level of 19.1%, primarily due to lower margins for gypsum wallboard in Canada and interior systems products.

Selling and administrative expenses increased slightly in 1993 versus 1992. However, these expenses as a percentage of net sales improved to 11.5% from 12.3% in 1992 as a result of the increase in 1993 net sales. In 1992, selling and administrative expenses increased $24 million, or 12.4%, over the 1991 level due to increased compensation and benefits, rent associated with the new corporate headquarters building, expansion of certain international operations and a nonrecurring charge associated with organizational streamlining activities.

Effective May 7, 1993, the Corporation began amortizing its Excess Reorganization Value which was established in accordance with fresh start accounting rules. This non-cash amortization, which will continue through April 1998, amounted to $113 million in 1993 with no counterpart in prior years. Consequently, 1993 operating profit is not comparable to the prior years.

EBITDA in 1993 increased $59 million, or 37.1%, over 1992, after decreasing $35 million, or 18.0%, in 1992 compared with 1991. These results reflect the aforementioned gross profit performance and the higher 1992 versus 1991 selling and administrative expenses.

UNITED STATES

Net sales and EBITDA for domestic Gypsum Products (primarily U.S. Gypsum) have increased for two consecutive years. In 1993, net sales increased $97 million, or 10.9%, over 1992, following a $54 million, or 6.5%, increase in 1992 compared with 1991. EBITDA in 1993 improved $49 million, or 49.5%, over 1992, which was $6 million, or 6.5%, higher than the 1991 level. These improvements primarily reflect improving gypsum wallboard selling prices and increased volume. Higher sales of joint compound, DUROCK cement board and other products contributed to the more favorable domestic Gypsum Products results.

As a result of increased demand, 1993 shipments of gypsum wallboard exceeded 7.3 billion square feet, the highest level in the Corporation's history, and were up 2% over 1992. Shipments in 1992 were up 8% over 1991. As gypsum wallboard demand and industry capacity utilization increased, prices improved. After reaching a 14-year low in the first quarter of 1992, gypsum wallboard prices rebounded in the following quarter and rose in each of the next seven consecutive quarters. For 1993 as a whole, gypsum wallboard prices increased 10.5% over the prior year average after falling 1.3% in 1992 from 1991. U.S. Gypsum's average gypsum wallboard prices per thousand square feet for the three years were as follows:

	1993	1992	1991
First Quarter.	$74.97	$67.77	$77.05
Second Quarter	77.71	72.20	71.93
Third Quarter.	80.70	73.03	71.32
Fourth Quarter	82.46	73.35	70.19
Total Year	79.07	71.58	72.53

Partially offsetting the favorable price and volume trends in 1993 was a 3% increase in unit manufacturing cost for gypsum wallboard. This increase was primarily attributable to higher levels of maintenance expenditures and energy cost. In 1992, unit manufacturing cost declined 2% compared with 1991. However, EBITDA in 1992 was unfavorably impacted by a nonrecurring pre-tax charge of $4 million associated with organizational streamlining activities.

Net sales in 1993 for domestic Interior Systems (primarily USG Interiors) increased $8 million, or 2.2%, over the 1992 level, while EBITDA decreased $2 million, or 4.3%. Net sales and EBITDA in 1992 decreased $18 million, or 4.7%, and $12 million, or 20.3%, from the respective 1991 levels. These results primarily reflect low levels of non-residential construction in 1992 and 1993, partially offset in 1993 by increased sales to retail markets. The 1993 net sales and EBITDA trends primarily reflect increased sales of lower margin products and higher raw material costs.

Building Products Distribution (L&W Supply) has experienced two consecutive years of increased net sales and EBITDA. Net sales in 1993 increased $64 million, or 13.8%, and EBITDA rose $2 million, or 40.0%, over the respective 1992 amounts. Comparing 1992 to 1991, net sales were up $40 million, or 9.4%, and EBITDA increased $1 million, or 25.0%. These improvements reflect higher gypsum wallboard selling prices and increased volume, as well as improved results for its other building product lines.

CANADA

Net sales for the Corporation's Canadian operations (primarily CGC) declined $6 million, or 4.0%, in 1993 versus 1992, due to the strengthened U.S. dollar compared with the Canadian dollar. However, EBITDA was up $3 million, or 21.4%, in 1993 versus 1992 due to higher selling prices for gypsum wallboard. Canadian gypsum wallboard prices were impacted in 1993 by the Canadian government's ruling that dumping of U.S.-made gypsum wallboard had occurred and the resulting imposition of duties on gypsum wallboard imported into Canada from the United States at prices below certain levels. This ruling will be in effect until January 1998. For 1992, net sales and EBITDA decreased $20 million, or 11.8%, and $15 million, or 51.7%, respectively, from the corresponding 1991 levels. These declines resulted from lower selling prices and volume for gypsum wallboard due to the weak Canadian economy. Results for both 1993 and 1992 were also unfavorably impacted by lower sales of CGC's interior systems products due to the low level of commercial construction.

OTHER FOREIGN

Despite the continuing recession in Europe and the impact of the strengthened U.S. dollar compared with European currencies, net sales in 1993 for the Corporation's Other Foreign businesses (primarily operations in Europe, the Pacific and Mexico managed by USG International) were unchanged from 1992 due to increased sales of ceiling tile in Europe. However, EBITDA in 1993 increased $4 million, or 18.2%, over 1992 due to reduced overhead costs. Comparing 1992 to 1991, net sales increased $15 million, or 7.8%, while EBITDA decreased $6 million, or 21.4%. The improvement in net sales reflects increased sales of interior systems products in certain markets as well as the impact of a weakened U.S. dollar in 1992. The decline in EBITDA resulted from recessionary market conditions in Europe, costs associated with the Aubange, Belgium ceiling tile plant and increased overhead costs.

OTHER EARNINGS INFORMATION

Interest expense, which was significantly reduced as a result of the Restructuring, amounted to $92 million in the period of May 7 through December 31, 1993, of which $8 million represented non-cash amortization of reorganization debt discount. For the period of January 1 through May 6, 1993, interest expense was $86 million.

For the years ended December 31, 1992 and 1991, interest expense was $334 million and $333 million, respectively.

In connection with the Restructuring, the Corporation recorded in the period of January 1 through May 6, 1993 a one-time reorganization items gain of $709 million, which primarily consisted of an $851 million gain from recording the Excess Reorganization Value pursuant to fresh start accounting principles. See Item 8. "Financial Statements and Supplementary Data - Predecessor Company - Notes to Financial Statements - Reorganization Items" note for additional information on the reorganization items gain.

Income tax expense amounted to $29 million in the period of May 7 through December 31, 1993 due to the inability to benefit the amortization of Excess Reorganization Value. Income tax expense was $17 million for the period of January 1 through May 6, 1993 while income tax benefits of $33 million and $53 million were recorded in 1992 and 1991, respectively. The income tax expense in the period of January 1 through May 6, 1993 and the lower 1992 benefit compared to 1991 were primarily due to the inability to fully benefit a net operating loss carryforward ("NOL CARRYFORWARD") as an offset to deferred taxes. See Item 8. "Financial Statements and Supplementary Data - Notes to Financial Statements - Taxes on Income and Deferred Income Taxes" notes for both the Restructured and Predecessor Companies for additional information on income taxes.

Also in connection with the Restructuring, the Corporation recorded in the period of January 1 through May 6, 1993 a one-time after-tax extraordinary gain of $944 million. See Item 8. "Financial Statements and Supplementary Data - - Predecessor Company - Notes to Financial Statements - Extraordinary Gain" note for additional information on the extraordinary gain. In the period of May 7 through December 31, 1993, the Corporation recorded an after-tax extraordinary loss of $21 million reflecting the write-off of reorganization discount associated with debt issues expected to be prepaid, redeemed or purchased in 1994 with a portion of the proceeds from the Offering and the Note Placement. See Item 8. "Financial Statements and Supplementary Data - Restructured Company - - Notes to Financial Statements - Subsequent Event" note for additional information on the Offering and Note Placement.

A one-time after-tax net charge of $150 million was recorded in the first quarter of 1993 representing the cumulative impact of the adoption of Statement of Financial Accounting Standard ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 109, "Accounting for Income Taxes." See Item 8. "Financial Statements and Supplementary Data - Predecessor Company - Notes to Financial Statements - Taxes on Income and Deferred Income Taxes and Postretirement Benefits" notes for information related to these accounting changes.

A net loss of $129 million was recorded in the period of May 7 through December 31, 1993 after the aforementioned amortization of Excess Reorganization Value of $113 million and the after-tax extraordinary loss of $21 million. Net earnings of $1,434 million were recorded in the period of January 1 through May 6, 1993, reflecting the reorganization items gain of $709 million and the after-tax extraordinary gain of $944 million. Net losses of $191 million and $161 million were recorded in 1992 and 1991, respectively, primarily due to high levels of interest expense. The net loss in 1991 included a $20 million after-tax provision relating to the sale of DAP Inc. ("DAP"), formerly a wholly owned subsidiary of the Corporation. Results for DAP are reported separately as discontinued operations up to September 1991, when the sale of DAP was completed.

LIQUIDITY AND CAPITAL RESOURCES

On May 6, 1993, the Corporation completed the Restructuring through implementation of the Prepackaged Plan. The provisions of the Prepackaged Plan were agreed upon in principle with all committees and certain institutions representing debt subject to the Restructuring in January 1993. The Corporation's Registration Statement (Registration No. 33-40136), which included a Disclosure Statement and Proxy Statement - Prospectus, was declared effective by the SEC in February 1993. The solicitation process for approvals of the Prepackaged Plan was completed on March 15, 1993. The Corporation commenced a prepackaged Chapter 11 bankruptcy case in Delaware (IN RE: USG CORPORATION, Case No. 93-300) on March 17, 1993 and received the U.S. Bankruptcy Court's confirmation of the Prepackaged Plan on April 23, 1993. None of the subsidiaries of the Corporation were part of this proceeding and there was no impact on trade creditors of the Corporation's subsidiaries. Under the Prepackaged Plan, all previously existing defaults were waived or cured.

In the Restructuring, the Corporation (i) converted approximately $1.4 billion of subordinated debt and accrued interest into Common Stock and Warrants to purchase Common Stock, (ii) converted approximately $300 million principal amount of bank term loan (the "BANK TERM LOAN") and $40 million of other obligations under an agreement (the "CREDIT AGREEMENT") with a syndicate of commercial banks (the "BANKS" or the "BANK GROUP") into 10 1/4% Senior Notes due 2002 ("SENIOR 2002 NOTES") and (iii) extended the maturities of its remaining Bank Debt and certain public debt. Further, modifications were made to the Credit Agreement which resulted in, among other things, (i) the issuance of $56 million of notes (the "CAPITALIZED INTEREST NOTES" and, together with the Bank Term Loan, the "BANK DEBT") in exchange for an equal amount of accrued but unpaid interest and other obligations and (ii) modifications to the Revolving Credit Facility. See Item 8. "Financial Statements and Supplementary Data - Predecessor Company - Notes to Financial Statements - Financial Restructuring" note for additional information on the Restructuring.

Subsequent to the Restructuring, on August 10, 1993, the Corporation issued an additional $138 million of Senior 2002 Notes in exchange for Bank Debt. This transaction improved the Corporation's financial flexibility and responded to strong market demand for the Senior 2002 Notes by replacing near-term maturities of the Bank Debt with the longer term notes. Although issuance of these notes caused a modest increase in interest expense from the level experienced since the Restructuring was consummated, it eliminated all Bank Term Loan scheduled principal payments due through 1996. Furthermore, in connection with this exchange, the cash sweep mechanism of the Credit Agreement was modified, allowing the Corporation to apply cash otherwise subject to the cash sweep through 1996 to repayment or purchase of senior debt. For the holders of the Bank Debt participating in the exchange, the Senior 2002 Notes provide greater yield and liquidity than the Bank Debt. See Item 8. "Financial Statements and Supplementary Data - Restructured Company - Notes to Financial Statements - Indebtedness" note for additional information on this transaction.

On January 7, 1994, the Corporation filed a Registration Statement (Registration No. 33-51845), as amended on February 16, 1994, pertaining to its planned public offering of 6,000,000 new shares of Common Stock to be sold by the Corporation and 4,000,000 shares of Common Stock to be sold by Water Street Corporate Recovery Fund I, L.P. The Offering is part of a refinancing strategy which also includes (i) the placement of $150 million principal amount of new senior notes due 2001 with certain institutional investors and (ii) certain amendments to the Corporation's Credit Agreement. The Credit Agreement Amendments will, among other things, increase the size of the Corporation's Revolving Credit Facility by $70 million and amend existing mandatory Bank Term Loan prepayment provisions to allow the Corporation, upon the achievement of certain financial tests, to retain additional free cash flow for capital expenditures and the purchase of its public debt. Certain amendments are contingent on the consummation of the Offering.

On February 17, 1994, the Corporation completed the Note Placement of $150 million principal amount of 9 1/4% Senior Notes due 2001. In connection with such placement, the Corporation received in exchange for an equivalent amount of such new Notes approximately $65 million principal amount of 8% Senior Notes ($30 million due in 1996 and $35 million due in 1997) and repaid $75 million of its Bank Term Loans in satisfaction of the scheduled payment for 1997 and in reduction of the scheduled payment for 1998 from $100 million to $65 million.

In addition to the exchange of notes and payment of Bank Term Loans in conection with the Note Placement as described above, the Corporation expects to use a portion of the net proceeds from the Offering, together with approximately $158 million of existing cash generated from operations to pay an additional $65 million of Bank

Term Loans and to redeem or purchase approximately $195 million aggregate principal amount of certain other senior debt issues. The remainder of the net proceeds, approximately $92 million, will be available for general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities. See Item 8. "Financial Statements and Supplementary Data - Restructured Company - Notes to Financial Statements - Subsequent Event" note for more information on the Transactions.

The Corporation believes that, as a result of the Restructuring, as well as the subsequent exchange of Senior 2002 Notes for Bank Debt, the Corporation's cash generated by operations and the estimated levels of liquidity available to the Corporation will be sufficient to permit the Corporation to satisfy its debt service requirements and other capital requirements for the foreseeable future. Upon completion of the Transactions, the Corporation's liquidity and capital resources will be further significantly strengthened. However, the Corporation is subject to significant business, economic and competitive uncertainties that are beyond its control. There can be no assurance that the Corporation's financial resources will be sufficient for the Corporation to satisfy its debt service obligations and other capital requirements under all circumstances.

WORKING CAPITAL

As of December 31, 1993, working capital (current assets less current liabilities) amounted to $121 million and the ratio of current assets to current liabilities was 1.24 to 1, versus December 31, 1992 when current liabilities exceeded current assets by $2.6 billion and the ratio of current assets to current liabilities was .21 to 1. From December 31, 1990 through May 6, 1993, the Corporation had a deficit working capital position, primarily resulting from the inclusion of most long-term debt issues in current liabilities due to various defaults upon certain of the debt issues. Upon consummation of the Restructuring, all previously existing defaults were waived or cured and long-term debt included in current liabilities was either exchanged for Common Stock and Warrants to purchase Common Stock, reclassified to long-term debt, or in the case of $140 million of the Revolving Credit Facility, repaid. See Item 8. "Financial Statements and Supplementary Data - Predecessor Company - Notes to Financial Statements - Financial Restructuring" note for additional information related to the Restructuring.

For the period of May 7 through December 31, 1993, cash and cash equivalents increased $162 million as cash flows from operating activities of $183 million were partially offset by a net repayment of debt of $21 million. As of December 31, 1993, $158 million of long-term debt was reclassified to currently maturing long-term debt due to the cash sweep mechanism of the Credit Agreement. This cash sweep mechanism requires prepayment of long-term debt in 1994. For the period of January 1 through May 6, 1993, cash and cash equivalents decreased by $131 million, primarily due to debt repayments in connection with the Restructuring.

Comparing December 31, 1993 balances with December 31, 1992, accrued expenses of $208 million were down $345 million, or 62.4%, primarily due to the cancellation and discharge of $375 million of accrued interest in connection with the Restructuring. Inventories of $145 million increased $32 million, or 28.3%, primarily due to their revaluation as a result of fresh start accounting. Accounts receivable (net) of $264 million declined $35 million, or 11.7%, reflecting a decline in miscellaneous corporate receivables, partially offset by an increase of $26 million in customer receivables due to the higher level of net sales. Accounts payable of $104 million rose $13 million, or 14.3%, due to the increased level of business and improved trade credit.

CAPITAL EXPENDITURES

Capital expenditures amounted to $29 million in the period of May 7 through December 31, 1993 and $12 million in the period of January 1 through May 6, 1993 for a total of $41 million in the year ended December 31, 1993. In 1992, capital expenditures were $49 million. Capital expenditure commitments for the replacement, modernization and expansion of operations amounted to $11 million as of December 31, 1993, compared with $24 million as of December 31, 1992. The Credit Agreement restricts, among other things, capital expenditures above certain levels. The Corporation believes that these permitted levels are adequate. In connection with the planned Offering and Note Placement, the Credit Agreement will be amended, allowing the Corporation to retain additional cash flow for capital expenditures and other uses. Upon completion of the Transactions, the Corporation intends to augment its capital spending program on a basis consistent with such new amendment. See Item 8. "Financial Statements and Supplementary Data - Restructured Company - Notes to Financial Statements - Subsequent Event" note for additional information related to the Transactions.

LITIGATION

One of the Corporation's subsidiaries, U.S. Gypsum, is a defendant in asbestos lawsuits alleging both property damage and personal injury. This litigation has not had a material effect on the Corporation's liquidity or earnings. Virtually all costs of the Personal Injury Cases are being paid by insurance. However, many of U.S. Gypsum's insurance carriers are denying coverage for the Property Damage Cases, although U.S. Gypsum believes that substantial coverage exists and the trial court in U.S. Gypsum's Coverage Action has so ruled (such ruling has been appealed). In view of the limited insurance funding currently available to U.S. Gypsum for Property Damage Cases resulting from continued resistance by a number of U.S. Gypsum's insurers to providing coverage, the effect of the asbestos litigation on the Corporation will depend upon a variety of factors, including the damages sought in Property Damage Cases that reach trial prior to the completion of the Coverage Action, U.S. Gypsum's ability to successfully defend or settle such cases, and the resolution of the Coverage Action. As a result, management is unable to determine whether an adverse outcome in the asbestos litigation will have a material adverse effect on the results of operations or the consolidated financial position of the Corporation.

The Corporation and certain of its subsidiaries have been notified by state and federal environmental protection agencies of possible involvement as one of numerous "potentially responsible parties" in a number of so-called "Superfund" sites in the United States. The Corporation believes that neither these matters nor any other known governmental proceeding regarding environmental matters will have a material adverse effect upon its earnings or consolidated financial position. See Item 8. "Financial Statements and Supplementary Data - Restructured Company - Notes to Financial Statements - Litigation" note for more information on legal proceedings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) POST-BANKRUPTCY ACCOUNTING RULES REQUIRE SEPARATE REPORTING OF FINANCIAL RESULTS FOR THE RESTRUCTURED COMPANY AND THE PREDECESSOR COMPANY. AS SUCH, THE CORPORATION'S FINANCIAL STATEMENTS EFFECTIVE MAY 7, 1993 ARE PRESENTED UNDER "RESTRUCTURED COMPANY" WHILE FINANCIAL STATEMENTS FOR PERIODS PRIOR TO THAT DATE ARE PRESENTED UNDER "PREDECESSOR COMPANY." DUE TO THE RESTRUCTURING AND IMPLEMENTATION OF FRESH START ACCOUNTING, FINANCIAL STATEMENTS FOR THE RESTRUCTURED COMPANY ARE NOT COMPARABLE TO THOSE FOR THE PREDECESSOR COMPANY. SEE "PREDECESSOR COMPANY - NOTES TO FINANCIAL STATEMENTS - FINANCIAL RESTRUCTURING AND FRESH START ACCOUNTING" NOTES FOR INFORMATION ON THE RESTRUCTURING AND IMPLEMENTATION OF FRESH START ACCOUNTING

ALL OTHER SCHEDULES HAVE BEEN OMITTED BECAUSE THEY ARE NOT APPLICABLE, ARE NOT REQUIRED, OR THE INFORMATION IS INCLUDED IN THE FINANCIAL STATEMENTS OR NOTES THERETO.

USG CORPORATION
(RESTRUCTURED COMPANY)
CONSOLIDATED STATEMENT OF EARNINGS
(DOLLARS IN MILLIONS EXCEPT PER SHARE DATA)

	MAY 7 THROUGH DECEMBER 31, 1993
NET SALES	$ 1,325
Cost of products sold	1,062
GROSS PROFIT	263
Selling and administrative expenses	149
Amortization of Excess Reorganization Value	113
OPERATING PROFIT	1
Interest expense	92
Interest income	(4)
Other income, net	(8)
LOSS BEFORE TAXES ON INCOME AND EXTRAORDINARY LOSS	(79)
Taxes on income	29
LOSS BEFORE EXTRAORDINARY LOSS	(108)
Extraordinary loss, net of taxes	(21)
NET LOSS	(129)
LOSS PER COMMON SHARE:	
Before extraordinary loss	$ (2.90)
Extraordinary loss	(0.56)
NET LOSS PER COMMON SHARE	(3.46)

THE NOTES TO FINANCIAL STATEMENTS ON PAGES 29 THROUGH 52 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION
(RESTRUCTURED COMPANY)
CONSOLIDATED BALANCE SHEET
(DOLLARS IN MILLIONS)

	AS OF DECEMBER 31, 1993
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents (primarily time deposits)	$ 211
Receivables (net of reserves of $13)	264
Inventories	145
Total current assets	620
PROPERTY, PLANT AND EQUIPMENT, NET	754
EXCESS REORGANIZATION VALUE (net of accumulated amortization of $113)	735
OTHER ASSETS	54
Total assets	2,163
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 104
Accrued expenses	208
Notes payable	2
Long-term debt maturing within one year	165
Taxes on income	20
Total current liabilities	499
LONG-TERM DEBT	1,309
DEFERRED INCOME TAXES	180
OTHER LIABILITIES	309
STOCKHOLDERS' EQUITY/(DEFICIT):	
Preferred stock - $1 par value; authorized 36,000,000 shares; $1.80 convertible preferred stock (initial series); outstanding - none	-
Common stock - $0.10 par value; authorized 200,000,000 shares; outstanding 37,158,085 (after deducting 27,876 shares held in treasury)	4
Capital received in excess of par value	-
Deferred currency translation	(9)
Reinvested earnings/(deficit)	(129)
Total stockholders' equity/(deficit)	(134)
Total liabilities and stockholders' equity	2,163

THE NOTES TO FINANCIAL STATEMENTS ON PAGES 29 THROUGH 52 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION
(RESTRUCTURED COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
(DOLLARS IN MILLIONS)

	MAY 7 THROUGH DECEMBER 31, 1993
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (129)
Adjustments to reconcile net loss to net cash:	
Amortization of Excess Reorganization Value	113
Extraordinary loss	21
Depreciation, depletion and amortization	44
Postretirement expense	7
Deferred income taxes	22
Net gain on asset dispositions	(9)
Decrease in working capital:	
Receivables	51
Inventories	4
Payables	14
Accrued expenses	37
Decrease in other assets	7
Increase in other liabilities	5
Other, net	(4)
Net cash flows from operating activities	183
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(29)
Net proceeds from asset dispositions	29
Net cash flows from investing activities	-
CASH FLOWS FROM FINANCING ACTIVITIES:	
Issuance of debt	36
Repayment of debt	(57)
Net cash flows to financing activities	(21)
NET INCREASE IN CASH AND CASH EQUIVALENTS	162
Cash and cash equivalents as of beginning of period	49
Cash and cash equivalents as of end of period	211
Supplemental Cash Flow Disclosures:	
Interest paid	$ 73
Income taxes paid	5

THE NOTES TO FINANCIAL STATEMENTS ON PAGER 29 THROUGH 52 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION
(RESTRUCTURED COMPANY)
NOTES TO FINANCIAL STATEMENTS
(TERMS IN INITIAL CAPITAL LETTERS ARE DEFINED ELSEWHERE IN THIS FORM 10-K)

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions. Revenue is recognized upon the shipment of products. Net currency translation gains or losses on foreign subsidiaries are included in deferred currency translation, a component of stockholders' equity.

Excess Reorganization Value, which was recorded as a result of the implementation of fresh start accounting, is being amortized through April 1998. The Corporation continues to evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of Excess Reorganization Value may warrant revision or that the remaining balances may not be recoverable. The Corporation uses an estimate of its undiscounted cash flows over the remaining life of the Excess Reorganization Value in measuring whether the asset is recoverable. See "Financial Restructuring" note below for more information on the implementation of fresh start accounting.

For purposes of the Consolidated Balance Sheet and Consolidated Statement of Cash Flows, all highly liquid investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

FINANCIAL RESTRUCTURING

On May 6, 1993, the Corporation completed a comprehensive restructuring of its debt (the "RESTRUCTURING") through implementation of a "prepackaged" plan of reorganization under federal bankruptcy laws (the "PREPACKAGED PLAN") which was confirmed on April 23, 1993 by the Bankruptcy Court. In the Restructuring, the Corporation (i) converted approximately $1.4 billion of subordinated debt and accrued interest into Common Stock and warrants to purchase Common Stock, (ii) converted approximately $340 million of its bank obligations into 10 1/4% Senior Notes due 2002 ("SENIOR 2002 NOTES") and (iii) extended the maturities of its remaining Bank Debt and certain public debt. Upon consummation of the Restructuring, all previously existing defaults upon senior securities were waived or cured. None of the subsidiaries of the Corporation were part of this proceeding and there was no impact on trade creditors of the Corporation's subsidiaries. The Corporation accounted for the Restructuring using the principles of fresh start accounting as required by AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). Pursuant to such principles, individual assets and liabilities were adjusted to fair market value as of May 6, 1993. See "Predecessor Company - Notes to Financial Statements - Financial Restructuring and Fresh Start Accounting" notes for information on the terms and implementation of the Prepackaged Plan and fresh start accounting.

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS

The following unaudited Pro Forma Condensed Consolidated Statement of Earnings for the year ended December 31, 1993 has been prepared giving effect to the consummation of the Restructuring, including the implementation of fresh start accounting, as if the consummation had occurred on January 1, 1993. Due to the Restructuring and implementation of fresh start accounting, financial statements effective May 7, 1993 for the restructured company are not comparable to financial statements prior to that date for the predecessor company. However, for presentation of this statement, total results for 1993 are shown under the caption "Total Before Adjustments." The adjustments set forth under the caption "Pro Forma Adjustments" reflect the implementation of the Prepackaged Plan and the adoption of fresh start accounting as if they had occurred on January 1, 1993.

USG CORPORATION
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1993
(UNAUDITED)
(DOLLARS IN MILLIONS)

	TOTAL BEFORE ADJUSTMENTS	PRO FORMA ADJUSTMENTS		PRO FORMA
Net sales	$ 1,916	$ -		$ 1,916
Cost of products sold	1,544	-		1,544
Gross profit.	372	-		372
Selling and administrative expense.	220	-		220
Amortization of Excess Reorganization Value . .	113	57	(a)	170
Operating profit/(loss)	39	(57)		(18)
Interest expense.	178	(42)	(b)	136
Interest income	(6)	-		(6)
Other (income)/expense, net	(2)	(1)	(c)	(3)
Reorganization items.	(709)	709	(d)	-
Earnings/(loss) before taxes on income, extraordinary gain and changes in accounting principles.	578	(723)		(145)
Taxes on income	46	(16)		30
Earnings/(loss) before extraordinary gain and changes in accounting principles	532	(707)		(175)

(a) Reflects amortization of Excess Reorganization Value which would have been recorded during the period of January 1 through May 6, 1993.

(b) Reflects the adjustment to restate interest expense for the period of January 1 through May 6, 1993 to the amount that would have been recorded.

(c) Represents the reversal of first quarter 1993 amortization of historical capitalized financing costs which were written off in connection with the Restructuring.

(d) Represents the reversal of actual reorganization items incurred in connection with the Restructuring and implementation of fresh start accounting. This gain would have been recorded in 1992 had the Restructuring occurred on January 1, 1993.

EXTRAORDINARY LOSS

In December 1993, the Corporation recorded an extraordinary loss of $21 million, net of related income tax benefit of $11 million, reflecting the write-off of the reorganization discount associated with debt issues expected to be prepaid, redeemed or purchased in 1994 in connection with the Corporation's planned public offering of Common Stock and issuance of new senior notes. See "Subsequent Event" note for more information on the planned public offering of stock and issuance of new senior notes.

RESEARCH AND DEVELOPMENT

Research and development expenditures are charged to earnings as incurred and amounted to $10 million in the period of May 7 through December 31, 1993.

TAXES ON INCOME AND DEFERRED INCOME TAXES

Loss before taxes on income and extraordinary loss consisted of the following (dollars in millions):

	MAY 7 THROUGH DECEMBER 31, 1993
U.S.	$ (72)
Foreign	(7)
Total	(79)

Taxes on income consisted of the following (dollars in millions):

	MAY 7 THROUGH DECEMBER 31, 1993
Current:	
U.S. Federal	$ 12
Foreign	5
State	1
	18
Deferred:	
U.S. Federal	11
Foreign	-
State	-
	11
Total	29

The difference between the statutory U.S. Federal income tax/(benefit) rate and the Corporation's effective income tax rate is summarized as follows:

	MAY 7 THROUGH DECEMBER 31, 1993
Statutory U.S. Federal income tax/(benefit) rate	(35.0)%
Excess Reorganization Value amortization	49.6
Foreign tax rate differential	11.4
Statutory rate adjustment to historical deferred taxes	4.0
Valuation allowance adjustment	3.3
Other, net	3.4
Effective income tax rate	36.7

Temporary differences and carryforwards which give rise to current and long-term deferred tax (assets)/liabilities as of December 31, 1993 were as follows (dollars in millions):

	AS OF DECEMBER 31, 1993
Property, plant and equipment	$ 164
Debt discount	19
Deferred tax liabilities	183
Pension and retiree medical benefits	(90)
Reserves not deductible until paid	(61)
Other	(8)
Deferred tax assets before valuation allowance	(159)
Valuation allowance	90
Deferred tax assets	(69)
Net deferred tax liabilities	114

A valuation allowance has been provided for deferred tax assets relating to pension and retiree medical benefits due to the long-term nature of their realization. Because of the uncertainty regarding the application of the Internal Revenue Code (the "CODE") to the Corporation's NOL Carryforwards as a result of the Prepackaged Plan, no deferred tax asset is recorded. Under fresh start accounting rules, any benefit realized from utilizing predecessor company NOL Carryforwards will not impact net earnings.

The Corporation has NOL Carryforwards of $90 million remaining from 1992 after using approximately $23 million to offset U.S. taxable income in 1993 and a reduction due to cancellation of indebtedness from the Prepackaged Plan. These NOL Carryforwards may be used to offset U.S. taxable income through 2007. The Code will limit the Corporation's annual use of its NOL Carryforwards to the lesser of its taxable income or approximately $30 million plus any unused limit from prior years. Furthermore, due to the uncertainty regarding the application of the Code to the exchange of stock for debt, the Corporation's NOL Carryforwards could be further reduced or eliminated. The Corporation has a $4 million minimum tax credit which may be used to offset U.S. regular tax liability in future years.

The Corporation does not provide for U.S. Federal income taxes on the portion of undistributed earnings of foreign subsidiaries which are intended to be permanently reinvested. The cumulative amount of such undistributed earnings totaled approximately $79 million as of December 31, 1993. Any future repatriation of undistributed earnings would not, in the opinion of management, result in significant additional taxes.

INVENTORIES

In accordance with the implementation of fresh start accounting, inventories were stated at fair market value as of May 6, 1993. Most of the Corporation's domestic inventories are valued under the last-in, first-out ("LIFO") method. As of December 31, 1993, the LIFO values of these inventories were $103 million and would have been the same if they were valued under the first-in, first-out ("FIFO") and average production cost methods. The remaining inventories are stated at the lower of cost or market, under the FIFO or average production cost methods.

Inventories include material, labor and applicable factory overhead costs. Inventory classifications were as follows (dollars in millions):

	AS OF DECEMBER 31, 1993
Finished goods and work-in-process	$ 84
Raw materials	53
Supplies	8
Total	145

The LIFO value of U.S. domestic inventories under fresh start accounting exceeded that computed for U.S. Federal income tax purposes by $25 million as of December 31, 1993.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were stated at fair market value as of May 6, 1993 in accordance with fresh start accounting. Provisions for depreciation are determined principally on a straight-line basis over the expected average useful lives of composite asset groups. Depletion is computed on a basis calculated to spread the cost of gypsum and other applicable resources over the estimated quantities of material recoverable. Interest during construction is capitalized on major property additions. Property, plant and equipment classifications were as follows (dollars in millions):

	AS OF DECEMBER 31, 1993
Land and mineral deposits	$ 61
Buildings and realty improvements	233
Machinery and equipment	496
	790
Reserves for depreciation and depletion	(36)
Total	754

LEASES

The Corporation leases certain of its offices, buildings, machinery and equipment, and autos under noncancellable operating leases. These leases have various terms and renewal options. Lease expense amounted to $22 million in the period of May 7 through December 31, 1993. Future minimum lease payments, by year and in the aggregate, under operating leases with initial or remaining noncancellable terms in excess of one year as of December 31, 1993 were as follows (dollars in millions):

	MINIMUM LEASE PAYMENTS
1994	$ 24
1995	21
1996	16
1997	12
1998	11
Thereafter	35
Aggregate minimum payments	119

INDEBTEDNESS

Total debt, including currently maturing debt, consisted of the following (dollars in millions):

	AS OF DECEMBER 31, 1993
SECURED DEBT:	
Bank Term Loan, installments due 1997 through 2000	$ 448
Senior notes and debentures:	
8% Senior Notes due 1995	75
8% Senior Notes due 1996	90
8% Senior Notes due 1997	100
9% Senior Notes due 1998	35
10 1/4% Senior Notes due 2002	478
7 7/8% Sinking Fund Debentures due 2004	36
8 3/4% Sinking Fund Debentures due 2017	200
Other secured debt, average interest rate 8.0%, varying payments through 1999	31
UNSECURED DEBT:	
Industrial revenue bonds, 5.9% ranging to 8.0%, due through 2014	38
Total principal amount of debt	1,531
Less unamortized reorganization discount	(55)
Total carrying amount of debt	1,476

As of December 31, 1993, the Corporation and its subsidiaries had $1,531 million total principal amount of debt (before unamortized reorganization discount) on a consolidated basis. Of such total debt, $105 million represented direct borrowings by the subsidiaries, including $38 million of industrial revenue bonds, $36 million of 7 7/8% sinking fund debentures issued by U.S. Gypsum in 1974 and subsequently assumed by the Corporation on a joint and several basis in 1985, $27 million of debt (primarily project financing) incurred by the Corporation's foreign subsidiaries other than CGC, $2 million of working capital borrowings by CGC, and $2 million of other long-term borrowings by CGC.

The Credit Agreement includes a cash sweep mechanism under which excess cash as of the end of any year, calculated in accordance with the Credit Agreement, must be used to pay debt within the following year. As of December 31, 1993, such excess cash amounted to $158 million. Accordingly, $158 million of long term debt was reclassified to currently maturing long-term debt.

On August 10, 1993, the Corporation issued $138 million of Senior 2002 Notes in exchange for $92 million of Bank Term Loans due 1994 through 1996 and $46 million of Capitalized Interest Notes due 2000. The Corporation did not receive any cash proceeds from the issuance of these securities. In connection with this transaction, the Credit Agreement was modified, providing for the following changes: (i) scheduled Bank Term Loan amortization payments of $95 million due in 1994, 1995 and 1996 were eliminated ($3 million was added to the final maturity of the Bank Term Loan due in 2000); (ii) USG Interiors paid $9 million of Capitalized Interest Notes due in 1998; and (iii) the cash sweep mechanism was modified to permit the use of up to $165 million of cash otherwise subject to mandatory Bank Term Loan prepayments in 1994, 1995 and 1996 for payment or purchase of senior debt with maturities prior to January 1, 1999, or for the prepayment of Bank Term Loans, at the discretion of the Corporation.

The Bank Term Loan and most other senior debt are secured by a pledge of all of the shares of the Corporation's major domestic subsidiaries and 65% of the shares of certain of its foreign subsidiaries including CGC, pursuant to a collateral trust arrangement controlled primarily by holders of the Bank Term Loan. The rights of the Corporation and its creditors to the assets of any subsidiary upon the latter's liquidation or reorganization will be subject to the prior claims of such subsidiary's creditors, except to the extent that the Corporation may itself be a creditor with enforceable claims against such subsidiary. The average rate of interest on the Bank Term Loan was 5.3% in the period of May 7 through December 31, 1993.

The "Other Secured Debt" category shown in the table above primarily includes short-term and long-term borrowings from several foreign banks by USG International used principally to finance construction of the Aubange, Belgium ceiling tile plant. This debt is secured by a lien on the assets of the Aubange plant and has restrictive covenants that restrict, among other things, the payment of dividends. Foreign borrowings made by the Corporation's international operations are generally allowed, within certain limits, under provisions of the Credit Agreement.

In general, the Credit Agreement restricts, among other things, the incurrence of additional indebtedness, mergers, asset dispositions, investments, prepayment of other debt, dealings with affiliates, capital expenditures, payment of dividends and lease commitments. The Credit Agreement, as amended in accordance with the Prepackaged Plan, also requires the Corporation, beginning January 1, 1995, to satisfy certain financial covenants.

The fair market value of debt as of December 31, 1993 was $1,481 million, based on indicative bond prices as of that date, excluding other secured debt, primarily representing financing for construction of the Aubange plant, which was not practicable to estimate.

Aggregate, presently scheduled maturities of long-term debt, after the assumed effect of prepayments pursuant to the aforementioned cash sweep mechanism and excluding other amounts classified as current liabilities, are $9 million, $20 million, $148 million and $153 million in the years 1995 through 1998, respectively.

PENSION PLANS

The Corporation and most of its subsidiaries have defined benefit retirement plans for all eligible employees. Benefits of the plans are generally based on years of service and employees' compensation during the last years of employment. The Corporation's contributions are made in accordance with independent actuarial reports which, for most plans, required minimal funding in the period of May 7 through December 31, 1993. Net pension expense included the following components (dollars in millions):

	MAY 7 THROUGH DECEMBER 31, 1993
Service cost-benefits earned during the period	$ 7
Interest cost on projected benefit obligation	21
Actual return on plan assets	(37)
Net amortization/(deferral)	16
Net pension expense	7

The pension plan assets, which consist primarily of publicly traded common stocks and debt securities, had an estimated fair market value that was lower than the projected benefit obligation as of December 31, 1993. The following table presents a reconciliation of the total assets of the pension plans to the projected benefit obligation (dollars in millions):

	AS OF DECEMBER 31, 1993
Amount of assets available for benefits:	
Funded assets of the plans at fair market value	$ 400
Accrued pension expense	25
Total assets of the plans	425
Present value of estimated pension obligation:	
Vested benefits	329
Nonvested benefits	27
Accumulated benefit obligation	356
Additional benefits based on projected future salary increases	85
Projected benefit obligation	441
Projected benefit obligation in excess of assets	(16)

The projected benefit obligation in excess of assets consisted of an unrecognized net loss due to changes in assumptions and differences between actual and estimated experience.

The expected long-term rate of return on plan assets was 9% for the period of May 7 through December 31, 1993. The assumed weighted average discount rate used in determining the accumulated benefit obligation was 7% and the rate of increases in projected future compensation levels was 5%.

POSTRETIREMENT BENEFITS

The Corporation maintains plans that provide retiree health care and life insurance benefits for all eligible employees. Employees generally become eligible for the retiree benefit plans when they meet minimum retirement age and service requirements. The cost of providing most of these benefits is shared with retirees.

The following table summarizes the components of net periodic postretirement benefit cost for the period of May 7 through December 31, 1993 (dollars in millions):

	MAY 7 THROUGH DECEMBER 31, 1993
Service cost of benefits earned	$ 4
Interest on accumulated postretirement benefit obligation	9
Net periodic postretirement benefit cost	13

The status of the Corporation's accrued postretirement benefit cost as of December 31, 1993 was as follows (dollars in millions):

	AS OF DECEMBER 31, 1993
Accumulated postretirement benefit obligation:	
Retirees	$ 123
Fully eligible active participants	14
Other active participants	66
	203
unrecognized net loss	(2)
Accrued postretirement benefit cost liability Unrecognized on the Consolidated Balance Sheet	201

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 11% as of December 31, 1993 with a gradually declining rate to 5% by the year 2000 and remaining at that level thereafter. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by $22 million and increase the net periodic postretirement benefit cost for the period of May 7 through December 31, 1993 by $2 million. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7%.

COMMITMENTS AND CONTINGENCIES

The Corporation employs a variety of off-balance sheet financial instruments to reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and energy costs. These instruments consists primarily of interest rate caps and swaps, foreign currency forward exchange contracts and energy price swaps and option agreements. The Corporation designates interest rate swaps as hedges of LIBOR-based bank debt, and accrues as interest expense the differential to be paid or received under the agreements as rates change over the life of the contracts. Gains and losses arising from foreign currency forward contracts offset gains and losses resulting from the underlying hedged transactions. Upon settlement of energy price contracts, the resulting gain or loss is included in related manufacturing cost. The Corporation continually monitors its positions with, and the credit quality of, the financial institutions which are counterparties to its off-balance sheet financial instruments and does not anticipate non-performance by the counterparties.

As of December 31, 1993, the Corporation had approximately $500 million (notional amount) of interest rate contracts outstanding, extending up to three years, and approximately $50 million (combined notional amount) of foreign currency and energy price contracts outstanding, extending one year or less. The difference in the value of all of the aforementioned contracts and the December 31, 1993 market value was not material.

MANAGEMENT PERFORMANCE PLAN

On May 6, 1993, all outstanding stock options were cancelled without consideration and certain shares of restricted and deferred stock were cashed-out pursuant to "change in control" provisions contained in the Management Performance Plan (the "PERFORMANCE PLAN"). As of December 31, 1993, restricted stock and awards for deferred stock yet to be issued (totaling 25,259 shares) remained outstanding as a consequence of certain waivers of the change in control event by senior members of management.

As permitted by the Prepackaged Plan, 2,788,350 common shares were reserved for future issuance in conjunction with stock options, all of which remained in reserve as of December 31,1993. Options for 1,673,000 common shares were granted on June 1, 1993, leaving an additional 1,115,350 common shares available for future grants. The options granted on June 1, 1993 become exercisable in the years 1994 through 1996 at an exercise price of $10.3125 per share.

PREFERRED SHARE PURCHASE RIGHTS

On June 6, 1988, the Corporation adopted a Preferred Share Purchase Rights Plan and pursuant to its provisions declared, subject to the consummation of the 1988 Recapitalization, a distribution of one right (the "RIGHTS") upon each new share of Common Stock issued in the 1988 Recapitalization. The 1988 Recapitalization became effective July 13, 1988 and the distribution occurred immediately thereafter. The Rights contain provisions which are intended to protect stockholders in the event of an unsolicited attempt to acquire the Corporation.

The Preferred Share Purchase Rights Plan was terminated in connection with the implementation of the Prepackaged Plan. On May 6, 1993, a new rights plan (the "RIGHTS AGREEMENT") was adopted with provisions substantially similar to the old rights agreement except that: (i) the purchase price of the Rights was reset; (ii) the expiration of the Rights was extended; (iii) a so-called "flip-in" feature and exchange feature were added; (iv) certain exemptions were added permitting certain acquisition and the continued holding of common shares by Water Street and its affiliates in excess of the otherwise specified thresholds; (v) the redemption price was reduced; and (vi) the amendment provision was liberalized.

Under the terms of the Rights Agreement, and subject to certain exceptions for Water Street and its affiliates, generally the Rights become exercisable (i) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "ACQUIRING PERSON"), other than the Corporation, any employee benefit plan of the Corporation, any entity holding Common Stock for or pursuant to the terms of any such plan, has beneficial ownership (as defined in the Rights Agreement) of 20% or more of the then outstanding Common Stock, (ii) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "ADVERSE PERSON") has beneficial ownership of 10% or more of the then outstanding Common Stock, the acquisition of which has been determined by the Board to present an actual threat of an acquisition of the Corporation that would not be in the best interest of the Corporation's stockholders or (iii) 10 days following the date of commencement of, or public announcement of, a tender offer or exchange offer for 30% or more of the Common Stock. When exercisable, each of the Rights entitles the registered holder to purchase one-hundredth of a share of a junior participating preferred stock, series C, $1.00 par value per share, at a price of $35.00 per one-hundredth of a preferred share, subject to adjustments.

In the event that the Corporation is the surviving corporation in a merger or other business combination involving an Acquiring Person or an Adverse Person and the Common Stock remains outstanding and unchanged or in the event that an Acquiring Person or an Adverse Person engages in one of a number of self-dealing transactions specified in the Rights Agreement, proper provision will be made so that each holder of a Right, other than Rights that are or were beneficially owned (as defined in the Rights Agreement) by the Acquiring Person or the Adverse Person, as the case may be, on the earliest of the Distribution Date, the date the Acquiring Person acquires 20% or more of the outstanding Common Stock or the date the Adverse Person becomes such (which will thereafter be void), will thereafter have the right to receive upon exercise thereof that number of shares of Common Stock having a market value at the time of such transaction of two times the exercise price of the Right. In addition, under certain circumstances the Board has the option of exchanging all or part of the Rights (excluding void Rights) for Common Stock in the manner described in the Rights Agreement. The Rights Agreement also contains a so-called "flip-in" feature which provides that if any person or group of affiliated or associated persons becomes an Adverse Person, then the provisions of the preceding two sentences shall apply.

WARRANTS

On May 6, 1993, a total of 2,602,566 warrants, each to purchase a share of Common Stock at an exercise price of $16.14 per share (the "WARRANTS"), were issued to holders of the Old Junior Subordinated Debentures in addition to the shares of Common Stock issued to such holders, all as provided by the Prepackaged Plan. Upon issuance, each of the Warrants entitled the holder to purchase one share of Common Stock at a purchase price of $16.14 per share, subject to adjustment under certain events.

The Warrants are exercisable, subject to applicable securities laws, at any time prior to May 6, 1998. Each share of Common Stock issued upon exercise of a Warrant prior to the Distribution Date (as defined in the Rights Agreement) and prior to the redemption or expiration of the Rights will be accompanied by an attached Right issued under the terms and subject to the conditions of the Rights Agreement as it may then be in effect. As of December 31, 1993, 2,601,619 Warrants were outstanding.

STOCKHOLDERS' EQUITY

Changes in stockholders' equity are summarized as follows (dollars in millions):

	MAY 7 THROUGH DECEMBER 31, 1993
COMMON STOCK:	
Beginning Balance	$ 4
Ending Balance	4
CAPITAL RECEIVED IN EXCESS OF PAR VALUE:	
Beginning Balance	-
Ending Balance	-
DEFERRED CURRENCY TRANSLATION:	
Beginning Balance	-
Change during the period	(9)
Ending Balance	(9)
REINVESTED EARNINGS/(DEFICIT):	
Beginning Balance	-
Net earnings/(loss)	(129)
Ending Balance	(129)
Total stockholders' equity/(deficit)	(134)

As of December 31, 1993, there were 27,876 shares of $0.10 par value Common Stock held in treasury, which were acquired through the forfeiture of restricted stock.

LITIGATION

One of the Corporation's subsidiaries, U.S. Gypsum, is among numerous defendants in lawsuits arising out of the manufacture and sale of asbestos-containing building materials. U.S. Gypsum sold certain asbestos-containing products beginning in the 1930's; in most cases the products were discontinued or asbestos was removed from the product formula by 1972, and no asbestos-containing products were sold after 1977. Some of these lawsuits seek to recover compensatory and in many cases punitive damages for costs associated with maintenance or removal and replacement of products containing asbestos (the "PROPERTY DAMAGE CASES"). Others of these suits (the "PERSONAL INJURY CASES") seek to recover compensatory and in many cases punitive damages for personal injury allegedly resulting from exposure to asbestos and asbestos-containing products. It is anticipated that additional personal injury and property damage cases containing similar allegations will be filed.

As discussed below, U.S. Gypsum has substantial personal injury and property damage insurance for the years involved in the asbestos litigation. Prior to 1985, when an asbestos exclusion was added to U.S. Gypsum's policies, U.S. Gypsum purchased comprehensive general liability insurance policies covering personal injury and property damage in an aggregate face amount of approximately $850 million. Insurers that issued approximately $106 million of these policies are presently insolvent. After deducting insolvencies and exhaustion of policies, approximately

$625 million of insurance remains potentially available. Because U.S. Gypsum's insurance carriers initially responded to its claims for defense and indemnification with various theories denying or limiting coverage and the applicability of their policies, U.S. Gypsum filed a declaratory judgment action against them in the Circuit Court of Cook County, Illinois on December 29, 1983. (U.S. GYPSUM CO. V. ADMIRAL INSURANCE CO., ET AL.) (the "COVERAGE ACTION"). U.S. Gypsum alleges in the Coverage Action that the carriers are obligated to provide indemnification for settlements and judgments and, in some cases, defense costs incurred by U.S. Gypsum in property damage and personal injury claims in which it is a defendant. The current defendants are ten insurance carriers that provided comprehensive general liability insurance coverage to U.S. Gypsum between the 1940's and 1984. As discussed below, several carriers have settled all or a portion of the claims in the Coverage Action.

U.S. Gypsum's aggregate expenditures for all asbestos-related matters, including property damage, personal injury, insurance coverage litigation and related expenses, exceeded aggregate insurance payments by $10.9 million in 1991, $25.8 million in 1992, and $8.2 million in 1993.

PROPERTY DAMAGE CASES

The Property Damage Cases have been brought against U.S. Gypsum by a variety of plaintiffs, including school districts, state and local governments, colleges and universities, hospitals and private property owners. U.S. Gypsum is one of many defendants in four cases that have been certified as class actions and others that request such certification. One class action suit is brought on behalf of owners and operators of all elementary and secondary schools in the United States that contain or contained friable asbestos-containing material. (IN RE ASBESTOS SCHOOL LITIGATION, U.S.D.C., E.D. Pa.) Approximately 1,350 school districts opted out of the class, some of which have filed or may file separate lawsuits or are participants in a state court class action involving approximately 333 school districts in Michigan. (BOARD OF EDUCATION OF THE CITY OF DETROIT, ET AL. V. THE CELOTEX CORP., ET AL., Circuit Court for Wayne County, Mich.) On April 10, 1992, a state court in Philadelphia certified a class consisting of all owners of buildings leased to the federal government. (PRINCE GEORGE CENTER, INC. V. U.S. GYPSUM CO., ET AL., Court of Common Pleas, Philadelphia, Pa.) On September 4, 1992, a Federal district court in South Carolina conditionally certified a class comprised of all colleges and universities in the United States, which certification is presently limited to the resolution of certain allegedly "common" liability issues. (CENTRAL WESLEYAN COLLEGE V. W.R. GRACE & CO., ET AL., U.S.D.C. S.C.). On December 23, 1992, a case was filed in state court in South Carolina purporting to be a "voluntary" class action on behalf of owners of all buildings containing certain types of asbestos-containing products manufactured by the nine named defendants, including U.S. Gypsum, other than buildings owned by the federal or state governments, single family residences, or buildings at issue in the four above-described class actions (ANDERSON COUNTY HOSPITAL V. W.R. GRACE & CO., ET AL., Court of Common Pleas, Hampton Co., S.C. (the "ANDERSON CASE"). On January 14, 1993, the plaintiff filed an amended complaint that added a number of claims and defendants, including USG Corporation. The amended complaint alleges, among other things, that the guarantees executed by U.S. Gypsum in connection with the 1988 Recapitalization, as well as subsequent distributions of cash from U.S. Gypsum to the Corporation, rendered U.S. Gypsum insolvent and constitute a fraudulent conveyance. The suit seeks to set aside the guarantees and recover the value of the cash flow "diverted" from U.S. Gypsum to the Corporation in an amount to be determined. This case has not been certified as a class action and no other threshold issues, including whether the South Carolina Courts have personal jurisdiction over the Corporation, have been decided. The damages claimed against U.S. Gypsum in the class action cases are unspecified. U.S. Gypsum has denied the substantive allegations of each of the Property Damage Cases and intends to defend them vigorously except when advantageous settlements are possible.

As of December 31, 1993, 61 Property Damage Cases were pending against U.S. Gypsum; however, the number of buildings involved is greater than the number of cases because many of these cases, including the class actions referred to above, involve multiple buildings. In addition, approximately 42 property damage claims have been threatened against U.S. Gypsum.

In total, U.S. Gypsum has settled property damage claims of approximately 191 plaintiffs involved in approximately 75 cases. Twenty-five cases have been tried to verdict, 16 of which were won by U.S. Gypsum and 6 lost; two other cases, one won at the trial level and one lost, were settled during appeals. Another case that was lost at the trial court level has been reversed on appeal and a new trial ordered. Appeals are pending in 5 of the tried cases. In the cases lost, compensatory damage awards against U.S. Gypsum have totaled $11.5 million. Punitive damages totalling $5.5 million were entered against U.S. Gypsum in four trials. Two of the punitive damage awards, totalling $1.45 million, were paid after appeals were exhausted; a third was settled after the verdict was reversed on appeal. The remaining punitive damage award is on appeal.

In 1991, 13 new Property Damage Cases were filed against U.S. Gypsum, 11 were dismissed before trial, 8 were settled, 2 were closed following trial or appeal, and 100 were pending at year-end. U.S. Gypsum expended $22.2 million for the defense and resolution of Property Damage Cases and received insurance payments of $13.8 million in 1991. During 1992, 7 new Property Damage Cases were filed against U.S. Gypsum, 10 were dismissed before trial, 18 were settled, 3 were closed following trial or appeal, and 76 were pending at year-end. U.S. Gypsum expended $34.9 million for the defense and resolution of Property Damage Cases and received insurance payments of $10.2 million in 1992. In 1993, 5 new Property Damage Cases were filed against U.S. Gypsum, 7 were dismissed before trial, 11 were settled, 1 was closed following trial or appeal, 2 were consolidated into 1, and 61 were pending at year-end. U.S. Gypsum expended $13.9 million for the defense and resolution of Property Damage Cases and received insurance payments of $7.6 million in 1993.

In the Property Damage Cases litigated to date, a defendant's liability for compensatory damages, if any, has been limited to damages associated with the presence and quantity of asbestos-containing products manufactured by that defendant which are identified in the buildings at issue, although plaintiffs in some cases have argued that principles of joint and several liability should apply. Because of the unique factors inherent in each of the Property Damage Cases, including the lack of reliable information as to product identification and the amount of damages claimed against U.S. Gypsum in many cases, including the class actions described above, management is unable to make a reasonable estimate of the cost of disposing of pending Property Damage Cases.

PERSONAL INJURY CASES

U.S. Gypsum was among numerous defendants in asbestos personal injury suits and administrative claims involving approximately 59,000 claimants pending as of December 31, 1993. All asbestos bodily injury claims pending in the federal courts, including approximately one-third of the Personal Injury Cases pending against U.S. Gypsum, have been consolidated in the United States District Court for the Eastern District of Pennsylvania.

U.S. Gypsum is a member, together with 19 other former producers of asbestos-containing products, of the

Center for Claims Resolution (the "CENTER"). The Center has assumed the handling, including the defense and settlement, of all Personal Injury Cases pending against U.S. Gypsum and the other members of the Center. Each member of the Center is assessed a portion of the liability and defense costs of the Center for the Personal Injury Cases handled by the Center, according to predetermined allocation formulas. Five of U.S. Gypsum's insurance carriers that in 1985 signed an Agreement Concerning Asbestos-Related Claims (the "WELLINGTON AGREEMENT") are supporting insurers (the "SUPPORTING INSURERS") of the Center. The Supporting Insurers are obligated to provide coverage for the defense and indemnity costs of the Center's members pursuant to the coverage provisions in the Wellington Agreement. Claims for punitive damages are defended but not paid by the Center; if punitive damages are recovered, insurance coverage may be available under the Wellington Agreement depending on the terms of particular policies and applicable state law. Punitive damages have not been awarded against U.S. Gypsum in any of the Personal Injury Cases. Virtually all of U.S. Gypsum's personal injury liability and defense costs are paid by those of its insurance carriers that are Supporting Insurers. The Supporting Insurers provided approximately $350 million of the total coverage referred to above, of which approximately $262 million remains unexhausted.

On January 15, 1993, U.S. Gypsum and the other members of the Center were named as defendants in a class action filed in the U.S. District Court for the Eastern District of Pennsylvania (GEORGINE ET AL. V. AMCHEM PRODUCTS INC., ET AL., Case No. 93-CV-0215) (hereinafter "GEORGINE," formerly known as "CARLOUGH"). The complaint generally defines the class of plaintiffs as all persons who have been occupationally exposed to asbestos-containing products manufactured by the defendants and who had not filed an asbestos personal injury suit as of the date of the filing of the class action. Simultaneously with the filing of the class action, the parties filed a settlement agreement in which the named plaintiffs, proposed class counsel, and the defendants agreed to settle and compromise the claims of the proposed class. The settlement, if approved by the court, will implement for all future Personal Injury Cases, except as noted below, an administrative compensation system to replace judicial claims against the defendants, and will provide fair and adequate compensation to future claimants who can demonstrate exposure to asbestos-containing products manufactured by the defendants and the presence of an asbestos-related disease. Class members will be given the opportunity to "opt out," or elect to be excluded from the settlement, although the defendants reserve the right to withdraw from the settlement if the number of opt outs is, in their sole judgment, excessive. In addition, in each year a limited number of claimants will have certain rights to prosecute their claims for compensatory (but not punitive) damages in court in the event they reject the compensation offered by the administrative processing of their claim.

The Center members, including U.S. Gypsum, have instituted proceedings against those of their insurance carriers that had not consented to support the settlement, seeking a declaratory judgment that the settlement is reasonable and, therefore, that the carriers are obligated to fund their portion of it. Consummation of the settlement is contingent upon, among other things, court approval of the settlement and a favorable ruling in the declaratory judgment proceedings against the non-consenting insurers. It is anticipated that appeals will follow the district court's ruling on the fairness and reasonableness of the settlement.

Each of the defendants has committed to fund a defined portion of the settlement, up to a stated maximum amount, over the initial ten year period of the agreement (which is automatically extended unless terminated by the defendants). Taking into account the provisions of the settlement agreement concerning the maximum number of claims that must be processed in each year and the total amount to be made available to the claimants, the Center estimates that U.S. Gypsum will be obligated to fund a maximum of approximately $125 million of the class action settlement, exclusive of expenses, with a maximum payment of less than $18 million in any single year; of the total amount of U.S. Gypsum's obligation, all but approximately $7 million is expected to be paid by U.S. Gypsum's insurance carriers.

During 1991, approximately 13,100 Personal Injury Cases were filed against U.S. Gypsum and approximately 6,300 were settled or dismissed. U.S. Gypsum incurred expenses of $15.1 million in 1991 with respect to Personal Injury Cases of which $15.0 million was paid by insurance. During 1992, approximately 20,100 Personal Injury Cases were filed against U.S. Gypsum and approximately 10,600 were settled or dismissed. U.S. Gypsum incurred expenses of $21.6 million in 1992 with respect to Personal Injury Cases of which $21.5 million was paid by insurance. During 1993, approximately 26,900 Personal Injury Cases were filed against U.S. Gypsum and approximately 22,900 were settled or dismissed. U.S. Gypsum incurred expenses of $34.9 million in 1993 with respect to Personal Injury Cases of which $34.0 million was paid by insurance. As of December 31, 1993, 1992, and 1991, approximately 59,000, 54,000, and 43,000 Personal Injury Cases were outstanding against U.S. Gypsum, respectively.

U.S. Gypsum's average settlement cost for Personal Injury Cases over the past three years has been approximately $1,600 per claim, exclusive of defense costs. Management anticipates that its average settlement cost is likely to increase due to such factors as the possible insolvency of co-defendants, although this increase may be offset to some extent by other factors, including the possibility for block settlements of large numbers of cases and the apparent increase in the percentage of asbestos personal injury cases that appear to have been brought by individuals with little or no physical impairment. Through the Center, U.S. Gypsum has reached settlements on approximately 26,700 pending Personal Injury Cases for an amount estimated at approximately $32 million. These settlements will be consummated and the cases closed over a three year period. In management's opinion, based primarily upon U.S. Gypsum's experience in the Personal Injury Cases disposed of to date and taking into consideration a number of uncertainties, it is probable that all asbestos-related Personal Injury Cases pending against U.S. Gypsum as of December 31, 1993, can be disposed of for a total amount, including both indemnity costs and legal fees and expenses, estimated to be between $100 million and $120 million (of which all but $2 million or $5 million, respectively, is expected to be paid by insurance). The estimated cost of resolving pending claims takes into account, among other factors, (i) an increase in the number of pending claims; (ii) the settlements of certain large blocks of claims for higher per-case averages than have historically been paid; (iii) the committed but unconsummated settlements described above; and (iv) a small increase in U.S. Gypsum's historical settlement average.

Assuming that the Georgine class action settlement referred to above is approved substantially in its current form, management estimates, based on assumptions supplied by the Center, U.S. Gypsum's maximum total exposure in Personal Injury Cases during the next ten years (the initial term of the agreement), including liability for pending claims and claims resolved as part of the class action settlement, as well as defense costs and other expenses, at approximately $262 million, of which approximately $250 million is expected to be paid by insurance. U.S. Gypsum's additional exposure for claims filed by persons who have opted out of Georgine would depend on the number of such claims that are filed, which cannot presently be determined.

COVERAGE ACTION

As indicated above, all of U.S. Gypsum's carriers initially denied coverage for the Property Damage Cases and the Personal Injury Cases, and U.S. Gypsum initiated the Coverage Action to establish its right to such coverage.

U.S. Gypsum has voluntarily dismissed the Supporting Insurers referred to above from the personal injury portion of the Coverage Action because they are committed to providing personal injury coverage in accordance with the Wellington Agreement. U.S. Gypsum's claims against the remaining carriers for coverage for the Personal Injury Cases have been stayed since 1984.

On January 7, 1991, the trial court in the Coverage Action ruled on the applicability of U.S. Gypsum's insurance policies to settlements and one adverse judgment in eight Property Damage Cases. The court ruled that the eight cases were generally covered, and imposed coverage obligations on particular policy years based upon the dates when the presence of asbestos-containing material was "first discovered" by the plaintiff in each case. The court awarded reimbursement of approximately $6.2 million spent by U.S. Gypsum to resolve the eight cases. U.S. Gypsum has appealed the court's ruling with respect to the policy years available to cover particular claims, and the carriers have appealed most other aspects of the court's ruling. The appeal process is likely to take up to a year or more from the date of this report.

U.S. Gypsum's experience in the Property Damage Cases suggests that "first discovery" dates in the eight cases referred to above (1978 through 1985) are likely to be typical of most pending cases. U.S. Gypsum's total insurance coverage for the years 1978 through 1984 is approximately $350 million (after subtracting insolvencies and discounts given to settling carriers). However, some pending cases, as well as some cases filed in the future, may be found to have first discovery dates later than August 1, 1984, after which U.S. Gypsum's insurance policies did not provide coverage for asbestos-related claims. In addition, as described below, the first layer excess carrier for the years 1980 through 1984 is insolvent and U.S. Gypsum may be required to pay amounts otherwise covered by those and other insolvent policies. Accordingly, if the court's ruling is affirmed, U.S. Gypsum will likely be required to bear a portion of the cost of the property damage litigation.

Eight carriers, including two of the Supporting Insurers, have settled U.S. Gypsum's claims for both property damage and personal injury coverage and have been dismissed from the Coverage Action entirely. Four of these carriers have agreed to pay all or a substantial portion of their policy limits to U.S. Gypsum beginning in 1991 and continuing over the next four years. Three other excess carriers, including the two settling Supporting Insurers, have agreed to provide coverage for the Property Damage Cases and the Personal Injury Cases subject to certain limitations and conditions, when and if underlying primary and excess coverage is exhausted. It cannot presently be determined when such coverage might be reached. Taking into account the above settlements, including participation of certain of the settling carriers in the Wellington Agreement, and consumption through December 31, 1993, carriers providing a total of approximately $90 million of unexhausted insurance have agreed, subject to the terms of the various settlement agreements, to cover both Personal Injury Cases and Property Damage Cases. Carriers providing an additional $250 million of coverage that was unexhausted as of December 31, 1993 have agreed to cover Personal Injury Cases under the Wellington Agreement, but continue to contest coverage for Property Damage Cases and remain defendants in the Coverage Action. U.S. Gypsum will continue to seek negotiated resolutions with its carriers in order to minimize the expense and delays of litigation.

Insolvency proceedings have been instituted against four of U.S. Gypsum's insurance carriers. Midland Insurance Company, declared insolvent in 1986, provided excess insurance ($4 million excess of $1 million excess of $500,000 primary in each policy year) from February 15, 1975 to February 15, 1978; Transit Casualty Company, declared insolvent in 1985, provided excess insurance ($15 million excess of $1 million primary in each policy year) from August 1, 1980 to December 31, 1985; Integrity Insurance Company, declared insolvent in 1986, provided excess insurance ($10 million quota share of $25 million excess of $90 million) from August 1, 1983 to July 31, 1984; and American Mutual Insurance Company, declared insolvent in 1989, provided the primary layer of insurance ($500,000 per year) from February 1, 1963 to April 15, 1971. It is possible that U.S. Gypsum will be required to pay a presently indeterminable portion of the costs that would otherwise have been covered by these policies. In addition, portions of various policies issued by Lloyd's and other London market companies between 1966 and 1979 have also become insolvent; under the Wellington Agreement, U.S. Gypsum must pay these amounts, which total approximately $12 million.

It is not possible to predict the number of additional lawsuits alleging asbestos-related claims that may be filed against U.S. Gypsum. The number of Personal Injury Cases pending against U.S. Gypsum has increased in each of the last several years. In addition, many Property Damage Cases are still at an early stage and the potential liability therefrom is consequently uncertain. In view of the limited insurance funding currently available for the Property Damage Cases resulting from the continued resistance by a number of U.S. Gypsum's insurers to providing coverage, the effect of the asbestos litigation on the Corporation will depend upon a variety of factors, including the damages sought in the Property Damage Cases that reach trial prior to the completion of the Coverage Action, U.S. Gypsum's ability to successfully defend or settle such cases, and the resolution of the Coverage Action. As a result, management is unable to determine whether an adverse outcome in the asbestos litigation will have a material adverse effect on the results of operations or the consolidated financial position of the Corporation.

ACCOUNTING CHANGE

Effective January 1, 1994, the Corporation will adopt the requirements of Financial Accounting Standards Board Interpretation No. 39. In accordance with Interpretation No. 39, U.S. Gypsum will record an accrual for its liabilities for asbestos-related matters which are deemed probable and can be reasonably estimated, and will separately record an asset equal to the amount of such liabilities that is expected to be paid by uncontested insurance. Due to management's inability to reasonably estimate U.S. Gypsum's liability for Property Damage Cases and (until the implementation of Georgine is deemed probable) future Personal Injury Cases, it is presently anticipated that the liabilities and assets to be recorded in 1994 will relate only to pending Personal Injury Cases. This implementation of Interpretation No. 39 is not expected to have a material impact on reported earnings or net assets.

ENVIRONMENTAL LITIGATION

The Corporation and certain of its subsidiaries have been notified by state and federal environmental protection agencies of possible involvement as one of numerous "potentially responsible parties" in a number of so-called "Superfund" sites in the United States. In substantially all of these sites, the involvement of the Corporation or its Subsidiaries is expected to be minimal. The Corporation believes that appropriate reserves have been established for its potential liability in connection with all Superfund sites but is continuing to review its accruals as additional information becomes available. Such reserves take into account all known or estimable costs associated with these sites including site investigations and feasibility costs, site cleanup and remediation, legal costs, and fines and penalties, if any. In addition, environmental costs connected with site cleanups on USG-owned property are also covered by reserves established in accordance with the foregoing. The Corporation believes that neither these matters nor any other known governmental proceeding regarding environmental matters will have a material adverse effect upon its earnings or consolidated financial position.

SUBSEQUENT EVENT

On January 7, 1994, the Corporation filed a Registration Statement (Registration No. 33-51845), as amended on February 16, 1994, pertaining to its planned public offering (the "OFFERING") of 6,000,000 new shares of Common Stock to be sold by the Corporation and 4,000,000 shares of Common Stock to be sold by Water Street Corporate Recovery Fund I, L.P. The Offering is part of a refinancing strategy which also includes (i) the placement (the "NOTE PLACEMENT") of $150 million principal amount of Senior 2001 Notes with certain institutional investors and (ii) certain amendments to the Corporation's Credit Agreement (the "CREDIT AGREEMENT AMENDMENTS" and, together with the Offering and Note Placement, the "TRANSACTIONS"). The Credit Agreement Amendments will, among other things, increase the size of the Corporation's revolving credit facility by $70 million and amend existing mandatory Bank Term Loan prepayment provisions to allow the Corporation, upon the achievement of certain financial tests, to retain additional free cash flow for capital expenditures and the purchase of its public debt. Certain Credit Agreement Amendments are contingent on the consummation of the Offering.

The Corporation expects to use a portion of the net proceeds from the Offering and the Note Placement, together with approximately $158 million of existing cash generated from operations to pay $140 million of Bank Term Loans and to redeem or purchase approximately $260 million aggregate principal amount of certain other senior debt issues. The remainder of the net proceeds, approximately $92 million, will be available for general corporate purposes, including capital expenditures for cost reduction, capacity improvement and future growth opportunities. The following is an unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1993 illustrating the effect of the Transactions as if they had occurred on that date:

USG CORPORATION
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
As of December 31, 1993
(unaudited)
(Dollars in millions)

	Historical	Pro Forma
Cash and cash equivalents	$ 211	$ 145
Other current assets	409	409
Other assets	1,543	1,543
Total assets	2,163	2,097
Long-term debt maturing within one year	$ 165	$ 7
Other current liabilities	334	334
Long-term debt	1,309	1,218
Other liabilities	489	489
Total stockholders' equity	(134)	49
Total liabilities and stockholders' equity	2,163	2,097

GEOGRAPHIC AND INDUSTRY SEGMENTS

Transactions between geographic areas are accounted for on an "arm's-length" basis. No single customer accounted for 4% or more of consolidated net sales. Export sales to foreign unaffiliated customers represent less than 10% of consolidated net sales.

Intrasegment and intersegment eliminations largely reflect intercompany sales from U.S. Gypsum to L&W Supply. Segment operating profit/(loss) includes all costs and expenses directly related to the segment involved and an allocation of expenses which benefit more than one segment. Operating profit/(loss) in the period of May 7 through December 31, 1993 reflects the non-cash amortization of Excess Reorganization Value which had the impact of reducing the operating profit of domestic Gypsum Products by $51 million, domestic Interior Systems by $60 million and Building Products Distribution by $2 million.

To assist the reader in evaluating the profitability of each geographic and industry segment, EBITDA is shown separately in the following tables. EBITDA represents earnings before interest, taxes, depreciation, depletion and amortization. For the period of May 7 through December 31, 1993, the Corporation also added back non-cash postretirement charges and an extraordinary loss. The Corporation believes EBITDA is helpful in understanding cash flow generated from operations that is available for taxes, debt service and capital expenditures. In addition, EBITDA facilitates the monitoring of covenants related to certain long-term debt and other agreements entered into in conjunction with the Restructuring. EBITDA should not be considered by investors as an alternative to net earnings as an indicator of the Corporation's operating performance or to cash flows as a measure of its overall liquidity.

MAY 7 THROUGH DECEMBER 31, 1993 GEOGRAPHIC SEGMENTS	NET SALES	OPERATING PROFIT/ (LOSS)	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
			(Dollars in millions)			
United States:						
Gypsum Products	$ 683	$ 47	$ 108	$ 61	$ 17	$ 904
Interior Systems	255	(22)	30	52	2	510
Building Products Distribution	372	4	7	3	1	121
Intrasegment eliminations	(163)	-	-	-	-	-
Corporate	-	(26)	(18)	10	-	254
Total	1,147	3	127	126	20	1,789
Canada	95	(6)	10	17	6	178
Other Foreign	143	4	18	14	3	197
Transfers between geographic areas	(60)	-	-	-	-	(1)
Total	1,325	1	155	157	29	2,163

INDUSTRY SEGMENTS	NET SALES	OPERATING PROFIT/ (LOSS)	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
Gypsum Products	$ 806	$ 53	$ 129	$ 76	$ 23	$ 1,093
Interior Systems	373	(30)	37	68	5	695
Building Products Distribution	372	4	7	3	1	121
Intersegment eliminations	(226)	-	-	-	-	-
Corporate	-	(26)	(18)	10	-	254
Total	1,325	1	155	157	29	2,163

TRANSFERS BETWEEN GEOGRAPHIC AREAS	MAY 7 THROUGH DECEMBER 31, 1993
	(Dollars in millions)
United States	$ 25
Canada	16
Other Foreign	19
Total	60

SUBSIDIARY DEBT GUARANTEES

The Corporation issued $340 million aggregate principal amount of Senior 2002 Notes in May 1993 and an additional $138 million aggregate principal amount of similar notes in August 1993. Each of U.S. Gypsum, USG Industries, Inc., USG Interiors, USG Foreign Investments, Ltd., L&W Supply, Westbank Planting Company, USG Interiors International, Inc., American Metals Corporation and La Mirada Products Co., Inc. (together, the "COMBINED GUARANTORS") guaranteed, in the manner described below, both the obligations of the Corporation under the Credit Agreement and the Senior 2002 Notes. The Combined Guarantors are jointly and severally liable under the Subsidiary Guarantees. Holders of the Bank Debt have the right to (i) determine whether, when and to what extent the guarantees will be enforced (provided that each guarantee payment will be applied to the Bank Term Loan, Revolving Credit Facility, Capitalized Interest Notes and Senior 2002 Notes pro rata based on the respective amounts owed thereon) and (ii) amend or eliminate the guarantees. The guarantees will terminate when the Bank Term Loan, the Revolving Credit Facility and the Capitalized Interest Notes are retired regardless of whether any Senior 2002 Notes remain unpaid. The liability of each of the Combined Guarantors on its guarantee is limited to the greater of (i) 95% of the lowest amount, calculated as of July 13, 1988, sufficient to render the guarantor insolvent, leave the guarantor with unreasonably small capital or leave the guarantor unable to pay its debts as they become due (each as defined under applicable law) and (ii) the same amount, calculated as of the date any demand for payment under such guarantee is made, in each case plus collection costs. The guarantees are senior obligations of the applicable guarantor and rank PARI PASSU with all unsubordinated obligations of the guarantor.

There are 43 Non-Guarantors (the "COMBINED NON-GUARANTORS"), substantially all of which are subsidiaries of Guarantors. The Combined Non-Guarantors primarily include CGC, Gypsum Transportation Limited, USG Canadian Mining Ltd. and the Corporation's Mexican, European and Pacific subsidiaries. The long-term debt of the Combined Non-Guarantors of $24 million as of December 31, 1993 has restrictive covenants that restrict, among other things, the payment of dividends.

The following condensed consolidating information presents:

(i) Condensed financial statements as of December 31, 1993 and for the period of May 7 through December 31, 1993 of: (a) the Corporation on a parent company only basis (the "PARENT COMPANY," which was the only entity of the Corporation included in the bankruptcy proceeding); (b) the Combined Guarantors; (c) the Combined Non-Guarantors; and (d) the Corporation on a consolidated basis. Due to the Restructuring and implementation of fresh start accounting, the financial statements for the restructured company (periods after May 6, 1993) are not comparable to those of the predecessor company. Except for the following condensed financial statements, separate financial information with respect to the Combined Guarantors is omitted as such separate financial information is not deemed material to investors.

(ii) The Parent Company and Combined Guarantors shown with their investments in their subsidiaries accounted for on the equity method.

(iii) Elimination entries necessary to consolidate the Parent Company and its subsidiaries.

USG CORPORATION
(RESTRUCTURED COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
MAY 7 THROUGH DECEMBER 31, 1993
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET SALES.	$ -	$ 1,153	$ 238	$ (66)	$ 1,325
GROSS PROFIT	-	216	47	-	263
OPERATING PROFIT/(LOSS).	(27)	30	(2)	-	1
Equity in net loss of the Subsidiaries .	291	11	-	(302)	-
Interest expense, net.	84	2	2	-	88
Corporate service charge	(106)	106	-	-	-
Other expense/(income)	(197)	188	1	-	(8)
LOSS BEFORE TAXES ON INCOME AND EXTRAORDINARY LOSS.	(99)	(277)	(5)	302	(79)
Taxes on income.	9	14	6	-	29
LOSS BEFORE EXTRAORDINARY LOSS	(108)	(291)	(11)	302	(108)
Extraordinary loss, net of taxes	(21)	-	-	-	(21)
NET LOSS	(129)	(291)	(11)	302	(129)

USG CORPORATION
(RESTRUCTURED COMPANY)
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 1993
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 187	$ (8)	$ 32	$ -	$ 211
Receivables, net.	8	240	44	(28)	264
Inventories	-	114	34	(3)	145
Total current assets	195	346	110	(31)	620
PROPERTY, PLANT AND EQUIPMENT, NET .	21	620	113	-	754
INVESTMENT IN SUBSIDIARIES	1,511	277	-	(1,788)	-
EXCESS REORGANIZATION VALUE, NET . .	-	582	153	-	735
OTHER ASSETS	(35)	91	3	(5)	54
Total assets	1,692	1,916	379	(1,824)	2,163
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses.	$ 100	$ 207	$ 52	$ (27)	$ 332
Notes payable and long-term debt maturing within one year	158	3	6	-	167
Total current liabilities.	258	210	58	(27)	499
LONG-TERM DEBT	1,249	36	24	-	1,309
DEFERRED INCOME TAXES.	14	151	15	-	180
OTHER LIABILITIES.	296	8	5	-	309
STOCKHOLDERS' EQUITY/(DEFICIT):					
Common stock.	4	1	6	(7)	4
Capital received in excess of par value	-	1,472	310	(1,782)	-
Deferred currency translation . . .	-	-	(9)	-	(9)
Reinvested earnings/(deficit) . . .	(129)	38	(30)	(8)	(129)
Total stockholders' equity/ (deficit).	(125)	1,511	277	(1,797)	(134)
Total liabilities and stockholders' equity	1,692	1,916	379	(1,824)	2,163

USG CORPORATION
(RESTRUCTURED COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
MAY 7 THROUGH DECEMBER 31, 1993
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET CASH FLOWS (TO)/FROM OPERATING ACTIVITIES. . . .	$ (27)	$ 185	$ 25	$ -	$ 183
Capital expenditures.	-	(20)	(9)	-	(29)
Net proceeds from asset dispositions.	16	13	-	-	29
NET CASH FLOWS (TO)/FROM INVESTING ACTIVITIES. . . .	16	(7)	(9)	-	-
Issuance of debt.	-	-	36	-	36
Repayment of debt	(8)	(9)	(40)	-	(57)
Cash dividends (paid)/received.	-	12	(12)	-	-
Net cash transfers (to)/from Corporate.	182	(182)	-	-	-
NET CASH FLOWS (TO)/FROM FINANCING ACTIVITIES. . . .	174	(179)	(16)	-	(21)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS.	163	(1)	-	-	162
Cash and cash equivalents at beginning of period . .	24	(7)	32	-	49
Cash and cash equivalents at end of period	187	(8)	32	-	211

USG CORPORATION
MANAGEMENT REPORT

Management is responsible for the preparation and integrity of the financial statements and related notes included herein. These statements have been prepared in accordance with generally accepted accounting principles and, of necessity, include some amounts that are based on management's best estimates and judgments.

The Corporation's accounting systems include internal controls designed to provide reasonable assurance of the reliability of its financial records and the proper safeguarding and use of its assets. Such controls are based on established policies and procedures, are implemented by trained personnel, and are monitored through an internal audit program. The Corporation's policies and procedures prescribe that the Corporation and its subsidiaries are to maintain ethical standards and that its business practices are to be consistent with those standards.

The Audit Committee of the Board, consisting solely of outside Directors of the Corporation, maintains an ongoing appraisal, on behalf of the stockholders, of the effectiveness of the independent auditors and management with respect to the preparation of financial statements, the adequacy of internal controls and the Corporation's accounting policies.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board
of Directors of USG Corporation:

We have audited the accompanying consolidated balance sheet of USG Corporation (Restructured Company), a Delaware corporation, and subsidiaries as of December 31, 1993 and the related consolidated statements of earnings and cash flows for the period of May 7 through December 31, 1993. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Notes to Financial Statements - "Financial Restructuring" note, on May 6, 1993, the Corporation completed a comprehensive financial restructuring through the implementation of a prepackaged plan of reorganization under Chapter 11 of the United States Bankruptcy Code and applied fresh start accounting. As such, results of operations through May 6, 1993 (Predecessor Company) are not comparable with results of operations subsequent to that date.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USG Corporation and subsidiaries as of December 31, 1993, and the results of their operations and their cash flows for the period of May 7 through December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Notes to Financial Statements - "Litigation" note, in view of the limited insurance funding currently available for property damage cases resulting from the continued resistance by a number of U.S. Gypsum's insurers to providing coverage, the effect of the asbestos litigation on the Corporation will depend upon a variety of factors, including the damages sought in property damage cases that reach trial prior to the completion of the coverage action, U.S. Gypsum's ability to successfully defend or settle such cases, and the resolution of the coverage action. As a result, management is unable to determine whether an adverse outcome in the asbestos litigation will have a material adverse effect on the consolidated results of operations or the consolidated financial position of the Corporation.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

USG CORPORATION
(RESTRUCTURED COMPANY)
SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
(DOLLARS IN MILLIONS)

CLASSIFICATION	BEGINNING BALANCE	ENDING BALANCE
MAY 7 THROUGH DECEMBER 31, 1993		
Land and mineral deposits	$ 61	$ 61
Buildings and realty improvements	228	233
Machinery and equipment	478	496
Total	767	790

In accordance with fresh start accounting, the Corporation adjusted its property, plant and equipment accounts as of May 6, 1993 to fair market value.

Detailed information regarding additions and deductions is omitted as neither total additions nor total deductions during the period shown above exceeded 10% of the balance at the end of the period. Total additions were $29 million, total deductions were $8 million and other adjustments increased property, plant and equipment by $2 million in the period of May 7 through December 31, 1993.

Total deductions include the effect of foreign currency translation which increased total deductions by $5 million in the period of May 7 through December 31, 1993.

Upon retirement or other disposition of property, the applicable cost and accumulated depreciation and depletion are removed from the accounts. Any gains and losses are included in earnings.

USG CORPORATION
(RESTRUCTURED COMPANY)
SCHEDULE VI
ACCUMULATED DEPRECIATION AND DEPLETION OF
PROPERTY, PLANT AND EQUIPMENT
(DOLLARS IN MILLIONS)

Classification	BEGINNING BALANCE	ENDING BALANCE
MAY 7 THROUGH DECEMBER 31, 1993		
Land and mineral deposits	$ -	$ -
Buildings and realty improvements	-	8
Machinery and equipment	-	28
Total	-	36

In accordance with fresh start accounting, the Corporation adjusted its property, plant and equipment accounts as of May 6, 1993 to fair market value. Consequently, there were no reserves for depreciation and depletion as of May 7, 1993.

Detailed information regarding additions and deductions is omitted as neither total additions nor total deductions of property, plant and equipment (see Schedule V) during the period shown above exceeded 10% of the balance of property, plant and equipment at the end of the period. Total provisions for depreciation and depletion were $34 million, total deductions were $1 million and other adjustments increased reserves by $3 million in the period of May 7 through December 31, 1993.

Upon retirement or other disposition of property, the applicable cost and accumulated depreciation and depletion are removed from the accounts. Any gains and losses are included in earnings.

USG CORPORATION
(Restructured Company)
SCHEDULE VIII
VALUATION AND QUALIFYING ACCOUNTS
(Dollars in millions)

ACCOUNT	BEGINNING BALANCE	PROVISION CHARGED TO COSTS AND EXPENSES	RECEIVABLES WRITTEN OFF AND DISCOUNTS ALLOWED	ENDING BALANCE
MAY 7 THROUGH DECEMBER 31, 1993				
Doubtful accounts	$ 11	$ 4	$ (4)	$ 11
Cash discounts.	2	15	(15)	2

USG CORPORATION
(Restructured Company)
SCHEDULE IX
SHORT-TERM BORROWINGS
(Dollars in millions)

CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	ENDING BALANCE	WEIGHTED AVERAGE INTEREST RATE	MAXIMUM AMOUNT OUTSTANDING DURING THE PERIOD	AVERAGE AMOUNT OUTSTANDING DURING THE PERIOD (a)	WEIGHTED AVERAGE INTEREST rATE DURING THE PERIOD (b)
MAY 7 THROUGH DECEMBER 31, 1993					
Notes payable (c)	$ 2	6.6%	$ 9	$ 7	6.6%
Revolving Credit Facility (d) . .	-	-	-	-	-

(a) The average of month-end principal balances.

(b) Computed by dividing average monthly interest expense for the period by the average amount of short-term borrowings outstanding.

(c) Represents borrowings from several foreign banks by USG International and CGC which are generally not subject to the provisions of the Credit Agreement.

(d) The Credit Agreement includes a $175 million Revolving Credit Facility, of which $110 million was established as a letter of credit subfacility.

USG CORPORATION
(Restructured Company)
SCHEDULE X
SUPPLEMENTAL STATEMENT OF EARNINGS INFORMATION
(Dollars in millions)

The following amounts were charged to costs and expenses:

	May 7 through December 31, 1993
Maintenance and repairs	$ 84
Depreciation, depletion and amortization	$ 44
Amortization of excess reorganization value	113
Total depreciation, depletion and amortization	157

Maintenance and repairs are recorded as costs or expenses when incurred.

Taxes (excluding payroll and income taxes), rents, royalties and advertising costs are not shown above, as individually they do not exceed one percent of net sales in the period shown.

USG CORPORATION
(Restructured Company)
SUPPLEMENTAL NOTE ON FINANCIAL INFORMATION FOR
UNITED STATES GYPSUM COMPANY
(A SUBSIDIARY OF USG CORPORATION)

USG Corporation, a holding company, owns several operating subsidiaries, including U.S. Gypsum. On January 1, 1985, all of the issued and outstanding shares of stock of U.S. Gypsum were converted into shares of USG Corporation and the holding company became a joint and several obligor for certain debentures originally issued by U.S. Gypsum. As of December 31, 1993, debentures totaling $36 million were recorded on the holding company's books of account. Financial results for U.S. Gypsum are presented below in accordance with disclosure requirements of the SEC (dollars in millions):

SUMMARY STATEMENT OF EARNINGS

	May 7 through December 31, 1993
Net sales	$ 673
Cost and expenses	584
Amortization of Excess Reorganization Value	41
Operating profit	48
Interest income, net	(2)
Other income, net	(1)
Corporate charges	60
Loss before taxes on income	(9)
Taxes on income	15
Net loss	(24)

SUMMARY BALANCE SHEET

	As of December 31, 1993
Current assets	$ 190
Property, plant and equipment, net	483
Excess Reorganization Value, net	265
Other assets	3
Total assets	941
Current liabilities	$ 124
Other liabilities and obligations	149
Stockholder's equity	668
Total liabilities and stockholder's equity	941

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
WITH RESPECT TO SUPPLEMENTAL NOTE AND FINANCIAL STATEMENT SCHEDULES

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of USG Corporation (Restructured Company) included in this Form 10-K, and have issued our report thereon dated January 31, 1994. Our report on the consolidated financial statements includes an explanatory paragraph with respect to the asbestos litigation as discussed in Notes to Financial Statements - "Litigation" note. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental note and financial statement schedules on pages 54 through 59 are the responsibility of the Corporation's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. The supplemental note and financial statement schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

USG CORPORATION
(PREDECESSOR COMPANY)
CONSOLIDATED STATEMENT OF EARNINGS
(DOLLARS IN MILLIONS)

	JANUARY 1 THROUGH MAY 6,	YEARS ENDED DECEMBER 31,	
	1993	1992	1991
NET SALES	$ 591	$ 1,777	$ 1,712
Cost of products sold	482	1,460	1,385
GROSS PROFIT	109	317	327
Selling and administrative expenses	71	218	194
OPERATING PROFIT	38	99	133
Interest expense	86	334	333
Interest income	(2)	(12)	(11)
Other expense, net	6	1	5
Reorganization items	(709)	-	-
EARNINGS/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES ON INCOME, EXTRAORDINARY GAIN AND CHANGES IN ACCOUNTING PRINCIPLES	657	(224)	(194)
Taxes on income/(income tax benefit)	17	(33)	(53)
EARNINGS/(LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY GAIN AND CHANGES IN ACCOUNTING PRINCIPLES	640	(191)	(141)
Extraordinary gain, net of taxes	944	-	-
Cumulative effect of changes in accounting principles, net	(150)	-	-
EARNINGS/(LOSS) FROM CONTINUING OPERATIONS	1,434	(191)	(141)
Reserve for DAP divestiture, net of taxes	-	-	(20)
NET EARNINGS/(LOSS)	1,434	(191)	(161)

PER-SHARE INFORMATION IS OMITTED BECAUSE, DUE TO THE RESTRUCTURING AND IMPLEMENTATION OF FRESH START ACCOUNTING, IT IS NOT MEANINGFUL.

THE NOTES TO FINANCIAL STATEMENTS ON PAGES 64 THROUGH 95 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION
(PREDECESSOR COMPANY)
CONSOLIDATED BALANCE SHEET
(DOLLARS IN MILLIONS)

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (primarily time deposits)	$ 49	$ 180
Receivables (net of reserves of $13 and $11)	315	299
Inventories	148	113
Restricted cash	-	88
Total current assets	512	680
PROPERTY, PLANT AND EQUIPMENT, NET	767	800
PURCHASED GOODWILL, NET	-	69
EXCESS REORGANIZATION VALUE	851	-
OTHER ASSETS	64	110
Total assets	2,194	1,659
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 96	$ 91
Accrued interest expense	9	386
Other accrued expenses	162	167
Notes payable	6	2
Revolving Credit Facility	-	140
Long-term debt maturing within one year	9	576
Long-term debt classified as current	-	1,926
Taxes on income	13	-
Total current liabilities	295	3,288
LONG-TERM DEBT	1,446	67
DEFERRED INCOME TAXES	170	175
OTHER LIABILITIES	279	9
STOCKHOLDERS' EQUITY/(DEFICIT):		
Preferred stock - $1 par value; $1.80 convertible preferred stock (initial series); outstanding - none	-	-
Common stock - $0.10 par value; outstanding 37,157,458 and 55,757,394 shares (after deducting 27,556 and 368,409 shares held in treasury)	4	5
Capital received in excess of par value	-	23
Deferred currency translation	-	(8)
Reinvested earnings/(deficit)	-	(1,900)
Total stockholders' equity/(deficit)	4	(1,880)
Total liabilities and stockholders' equity	2,194	1,659

THE NOTES TO FINANCIAL STATEMENTS ON PAGES 64 THROUGH 95 ARE AN INTEGRAL PART OF THIS STATEMENT.

USG CORPORATION
(PREDECESSOR COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
(DOLLARS IN MILLIONS)

	JANUARY 1 THROUGH MAY 6,	YEARS ENDED DECEMBER 31,	
	1993	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:			
Earnings/(loss) from continuing operations	$ 1,434	$ (191)	$ (141)
Reserve for DAP divestiture, net of taxes	-	-	(20)
Adjustments to reconcile earnings/(loss) from continuing operations to net cash:			
Cumulative effect of accounting changes	150	-	-
Depreciation, depletion and amortization	22	66	68
Postretirement expense	4	-	-
Interest expense on pay-in-kind debentures	17	74	63
Deferred income taxes	(13)	(25)	(13)
Net (gain)/loss on asset dispositions	4	(5)	(3)
(Increase)/decrease in working capital:			
Receivables	18	(1)	(16)
Inventories	(8)	(3)	(7)
Payables	3	(4)	(14)
Accrued expenses	15	213	132
Increase in other assets	(12)	(23)	(9)
Changes due to reorganization items:			
Increase in reorganization items	65	-	-
Net adjustments to fair market value	(759)	-	-
Gain on discharge of prepetition liabilities	(944)	-	-
Payment of liabilities net of collection of letters of credit	(7)	-	-
Decrease in other liabilities	-	(2)	(2)
Other, net	(3)	(9)	(9)
Net cash flows (to)/from operating activities	(14)	90	29
Cash Flows from Investing Activities:			
Capital expenditures	(12)	(49)	(49)
Net proceeds from asset dispositions	-	6	5
Net proceeds from divestiture of discontinued operations	-	-	80
Net cash flows (to)/from investing activities	(12)	(43)	36
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of debt	5	57	65
Repayment of debt	(142)	(75)	(68)
(Increase)/decrease in restricted assets	32	(4)	(84)
Net cash flows to financing activities	(105)	(22)	(87)
NET CASH FLOWS FROM DISCONTINUED OPERATIONS	-	-	2
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(131)	25	(20)
Cash and cash equivalents as of beginning of period	180	155	175
Cash and cash equivalents as of end of period	49	180	155
Supplemental Cash Flow Disclosures:			
Interest paid	$ 58	$ 52	$ 154
Income taxes paid	3	13	15

THE NOTES TO FINANCIAL STATEMENTS ON PAGES 64 THROUGH 95 ARE AN INTEGRAL PART OF THIS STATEMENT.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions. Revenue is recognized upon the shipment of products. Net currency translation gains or losses on foreign subsidiaries are included in deferred currency translation, a component of stockholders' equity, except for the years ended December 31, 1992 and 1991, for which Mexican currency translation losses were charged to earnings. Purchased goodwill, which was written off in accordance with the implementation of fresh start accounting, was previously being amortized over a period of 40 years. See "Fresh Start Accounting" note below for more information on the implementation of fresh start accounting.

For purposes of the Consolidated Balance Sheet and Consolidated Statement of Cash Flows, all highly liquid investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

FINANCIAL RESTRUCTURING

On May 6, 1993, the Corporation completed a comprehensive restructuring of its debt (the "RESTRUCTURING") through implementation of a "prepackaged" plan of reorganization (the "PREPACKAGED PLAN"). The provisions of the Prepackaged Plan were agreed upon in principle with all committees and certain institutions representing debt subject to the Restructuring in January 1993. The Corporation's Registration Statement (Registration No. 33-40136), which included a Disclosure Statement and Proxy Statement - Prospectus, was declared effective by the SEC in February 1993. The solicitation process for approvals of the Prepackaged Plan was completed on March 15, 1993. The Corporation commenced a prepackaged Chapter 11 bankruptcy case in Delaware (IN RE: USG CORPORATION, Case No. 93-300) on March 17, 1993 and received the U.S. Bankruptcy Court's confirmation of the Prepackaged Plan on April 23, 1993. None of the subsidiaries of the Corporation were part of this proceeding and there was no impact on trade creditors of the Corporation's subsidiaries. Under the Prepackaged Plan, all previously existing defaults were waived or cured.

The following summary of the major provisions of the Prepackaged Plan is qualified in its entirety by reference to the more detailed information appearing in the Disclosure Statement.

(a) The Prepackaged Plan provided for a one-for-50 reverse stock split (the "REVERSE STOCK SPLIT") which was effected immediately prior to the distribution of new common stock (the "NEW COMMON STOCK") pursuant to the Prepackaged Plan. On May 6, 1993, after giving effect to the Reverse Stock Split, the following distributions were made to holders of the following securities of the Corporation:

   (i) For each $1,000 principal amount of 13 1/4% senior subordinated debentures due 2000 (the "OLD SENIOR SUBORDINATED DEBENTURES") (excluding accrued interest thereon, which was cancelled), the holder received 50.81 shares of New Common Stock. As of May 6, 1993, the total principal amount of the Old Senior Subordinated Debentures was $600 million.

   (ii) For each $1,000 principal amount of 16% junior subordinated debentures due 2008 (the "OLD JUNIOR SUBORDINATED DEBENTURES") (excluding accrued interest thereon, which was cancelled), the holder received 11.61 shares of New Common Stock and 5.42 Warrants. As of May 6, 1993, the total principal amount of Old Junior Subordinated Debentures was $533 million, of which $480 million was subject to the distribution.

Stockholders existing prior to the distribution of New Common Stock retained their shares of Common Stock, subject to the Reverse Stock Split. After giving effect to the Reverse Stock Split and distribution of New Common Stock, there were 37,157,458 shares of Common Stock outstanding on May 6, 1993, of which the shares held by stockholders existing prior to such distribution represented 3% of the total number of outstanding shares. If all Warrants were exercised, the aggregate holdings of Old Senior Subordinated Debenture holders, Old Junior Subordinated Debenture holders and previously existing stockholders would represent 76.7%, 20.6% and 2.7%, respectively, of the total number of outstanding shares.

(b) For each $1,000 principal amount of 7 3/8% senior notes due 1991 (the "OLD SENIOR 1991 NOTES"), the holder received $750 principal amount of 8% senior notes due 1995 (the "SENIOR 1995 NOTES") and $250 principal amount of 9% senior notes due 1998 (the "SENIOR 1998 NOTES"). As of May 6, 1993, the total principal amount of the Old Senior 1991 Notes was $100 million. In addition, the Corporation issued $10 million principal amount of Senior 1998 Notes to two institutional holders of existing 8% senior notes due 1996 (the "SENIOR 1996 NOTES") in exchange for an equal principal amount thereof. The Senior 1995 and 1998 Notes are secured, with certain other indebtedness of the Corporation and subject to a collateral trust arrangement controlled primarily by holders of the Banks' claims, by first priority security interests in the capital stock of certain subsidiaries of the Corporation.

(c) Pursuant to the Prepackaged Plan, modifications were made to a credit agreement dated as of July 1, 1988 (the "OLD CREDIT AGREEMENT") with the Bank Group. The modifications, reflected in the Credit Agreement, are summarized as follows: (i) issuance of $340 million of Senior 2002 Notes in exchange for $300 million principal amount of Bank Term Loans, $24 million of accrued but unpaid interest on the Bank Term Loan and $16 million owed in connection with certain interest rate swap contracts; (ii) extension of the final maturity of the remaining principal outstanding on the Bank Term Loan ($540 million) from 1996 to 2000 and deferral of any scheduled principal payments until December 1994; (iii) issuance of $56 million of Capitalized Interest Notes bearing annual interest at LIBOR plus 2 1/4% (or Citibank's base rate plus 1 1/4%) in exchange for $51 million of accrued but unpaid interest on the Bank Debt and $5 million in additional amounts owed in connection with interest rate swap contracts; (iv) making available (at the Corporation's option but subject to certain limitations on the availability of LIBOR) an annual interest rate applicable to the Bank Term Loan and an extended revolving credit facility of LIBOR plus 1 7/8% (or Citibank's base rate plus 7/8%), with the option to issue additional Capitalized Interest Notes for the amount of such interest in excess of LIBOR plus 1% per annum; (v) provision for an excess cash flow sweep that will take into account certain liquidity thresholds; (vi) suspension of all financial covenants through January 1, 1995 and providing for new covenants thereafter; and (vii) extension to 1998 of the maturity date of and establishment of a maximum borrowing capacity of $175 million under the Revolving Credit Facility, including a $110 million letter of credit subfacility. Capitalized Interest Notes of $47 million were allocated as term capitalized interest notes maturing in 2000, being direct obligations of the Corporation, and $9 million of the Capitalized Interest Notes were allocated as revolver capitalized interest notes maturing in 1998, being direct obligations of USG Interiors.

The Corporation deferred certain principal and interest payments in order to maintain adequate liquidity during the Restructuring process. These payment deferrals constituted defaults under the applicable loan agreements and indentures, which were waived or cured on May 6, 1993.

FRESH START ACCOUNTING

The Corporation accounted for the Restructuring using the principles of fresh start accounting as required by SOP 90-7. Pursuant to such principles, in general, the Corporation's assets and liabilities were revalued. Total assets were stated at the reorganization value of the Corporation following the Restructuring. The Corporation primarily used "net present value" and "comparable companies" approaches to determine reorganization value (the "REORGANIZATION VALUE"). In the net present value approach, projected, unleveraged after-tax cash flows of the Subsidiaries and corporate operations through 1995 were discounted at rates approximating the Corporation's adjusted weighted average cost of capital. Terminal value was determined by capitalizing the 1995 projected results. Liabilities were stated at fair market value. The difference between the Reorganization Value of the assets and the fair market value of the liabilities was recorded as stockholders' equity with retained earnings restated to zero.

In accordance with SOP 90-7, individual assets and liabilities were adjusted to fair market value as of May 6, 1993. The portion of the Reorganization Value not attributable to specific assets ("EXCESS REORGANIZATION VALUE") will be amortized over a five year period. Adjustments were made to the historical balances of inventory, property, plant and equipment, purchased goodwill, long-term debt, various accrued liabilities and other long-term liabilities.

The following balance sheet details the adjustments that were made as of May 6, 1993 to record the Restructuring and implement fresh start accounting:

USG CORPORATION
(PREDECESSOR COMPANY)
CONSOLIDATED BALANCE SHEET
AS OF MAY 6, 1993
(DOLLARS IN MILLIONS)

	PRE-RESTRUCTURING AND FRESH START	(A) RESTRUCTURING ADJUSTMENTS	(B) FRESH START ADJUSTMENTS	POST-RESTRUCTURING AND FRESH START
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents.	$ 153	$ (104)	$ -	$ 49
Receivables, net	281	35	(1)	315
Inventories.	122	-	26	148
Restricted cash.	99	(99)	-	-
Total current assets	655	(168)	25	512
PROPERTY, PLANT AND EQUIPMENT, NET . . .	792	-	(25)	767
PURCHASED GOODWILL, NET.	69	-	(69)	-
EXCESS REORGANIZATION VALUE.	-	-	851	851
OTHER ASSETS	65	(1)	-	64
Total assets	1,581	(169)	782	2,194
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$ 96	$ -	$ -	$ 96
Accrued expenses	203	(28)	(4)	171
Notes payable.	6	-	-	6
Revolving Credit Facility.	140	(140)	-	-
Long-term debt maturing within one year.	9	-	-	9
Long-term debt classified as current . .	427	(427)	-	-
Taxes on income.	17	-	(4)	13
Total current liabilities.	898	(595)	(8)	295
LONG-TERM DEBT	67	1,473	(94)	1,446
DEFERRED INCOME TAXES.	111	24	35	170
OTHER LIABILITIES.	194	-	85	279
LIABILITIES SUBJECT TO COMPROMISE. . . .	2,458	(2,458)	-	-
STOCKHOLDERS' EQUITY/(DEFICIT):				
Preferred stock	-	-	-	-
Common stock	5	(1)	-	4
Capital received in excess of par value.	23	444	(467)	-
Deferred currency translation.	(7)	-	7	-
Reinvested earnings/(deficit).	(2,168)	944	1,224	-
Total stockholders' equity/(deficit) .	(2,147)	1,387	764	4
Total liabilities and stockholders' equity	1,581	(169)	782	2,194

(a) To record the consummation of the Prepackaged Plan. See "Financial Restructuring" note above for a summary of the terms of the Prepackaged Plan.

(b) To record the adjustments to state assets and liabilities at their estimated fair market value, including establishment of Excess Reorganization Value.

REORGANIZATION ITEMS

In connection with the Restructuring, the Corporation recorded a one-time reorganization items gain of $709 million in the period of January 1 through May 6, 1993. The (income)/expense components of this gain are as follows (dollars in millions):

	JANUARY 1 THROUGH MAY 6, 1993
Excess Reorganization Value	$ (851)
Other fresh start adjustments	63
Restructuring fees and expenses	57
Write-off of 1988 capitalized financing costs	22
Total reorganization items	(709)

EXTRAORDINARY GAIN

Also in connection with the Restructuring, the Corporation recorded a one-time after-tax extraordinary gain of $944 million in the period of January 1 through May 6, 1993. The income/(expense) components of this gain are as follows (dollars in millions):

	JANUARY 1 THROUGH MAY 6, 1993
Gain on exchange of the Old Senior Subordinated Debentures for stock	$ 477
Gain on exchange of the Old Junior Subordinated Debentures for stock and warrants	456
Write-off of bank debt default interest	49
Tax provision	(24)
Management incentive compensation	(13)
Other	(1)
Total extraordinary items	944

CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

A one-time after-tax charge of $150 million was recorded in the first quarter of 1993 representing the adoption of Statement of Financial Accounting Standard ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," - $180 million, partially offset by the adoption of SFAS No. 109, "Accounting for Income Taxes," - $30 million. See "Postretirement Benefits" and "Taxes on Income and Deferred Taxes" notes for information on the adoption of these standards. Neither of these standards impact cash flow.

DISCONTINUED OPERATIONS

Results for DAP are set forth separately as discontinued operations in the accompanying consolidated financial statements and supplementary data schedules up to September 20, 1991, the completion date of the sale of the business and substantially all of the assets. Operating results for DAP in 1991 included net sales of $128 million, taxes on income of $1 million and breakeven net earnings.

In the second quarter of 1991, the Corporation absorbed an expense provision of $20 million related to the disposition of DAP, net of related income tax expense of $8 million. An expense provision of $41 million, net of a related income tax benefit of $2 million, was previously recorded in the fourth quarter of 1990. Net proceeds from the transaction amounted to approximately $84 million. In connection with the execution of the DAP sale agreement, the Banks consented to the sale as required under the Old Credit Agreement subject to an agreement by the Corporation and DAP to deposit the proceeds in a bank account to be held exclusively for use in the Restructuring. As a result, these funds, and interest earned on these funds, were maintained on an interim basis in a restricted bank account and were classified as restricted cash in the Consolidated Balance Sheet until their release in connection with the Restructuring.

RESEARCH AND DEVELOPMENT

Research and development expenditures are charged to earnings as incurred and amounted to $4 million, $14 million and $12 million in the period of January 1 through May 6, 1993 and in the years ended December 31, 1992 and 1991, respectively.

TAXES ON INCOME AND DEFERRED INCOME TAXES

Effective January 1, 1993, the Corporation adopted SFAS No. 109, "Accounting for Income Taxes." The cumulative effect as of January 1, 1993 of adopting SFAS No. 109 was a one-time benefit to first quarter 1993 net earnings of $30 million, primarily due to adjusting deferred taxes from historical to current tax rates. Financial statements for periods prior to January 1, 1993 have not been restated to reflect the adoption of this standard.

Earnings/(loss) from continuing operations before taxes on income, extraordinary gain and changes in accounting principles consisted of the following (dollars in millions):

	JANUARY 1 THROUGH MAY 6,	YEARS ENDED DECEMBER 31,	
	1993	1992	1991
U.S.	$ 483	$ (246)	$ (217)
Foreign.	174	22	23
Total.	657	(224)	(194)

Taxes on income/(income tax benefit) consisted of the following (dollars in millions):

	JANUARY 1 THROUGH MAY 6, 1993	YEARS ENDED DECEMBER 31, 1992	1991
Current:			
U.S. Federal	$ 13	$ (12)	$ (53)
Foreign.	2	6	12
	15	(6)	(41)
Deferred:			
U.S. Federal	-	(27)	(11)
Foreign.	2	-	(1)
	2	(27)	(12)
Total.	17	(33)	(53)

The difference between the statutory U.S. Federal income tax/(benefit) rate and the Corporation's effective income tax/(benefit) rate is summarized as follows:

	JANUARY 1 THROUGH MAY 6, 1993	YEARS ENDED DECEMBER 31, 1992	1991
Statutory U.S. Federal income tax/(benefit) rate . .	34.0 %	(34.0)%	(34.0)%
Nontaxable effects of adopting fresh start accounting	(41.4)	-	-
Capitalized restructuring fees	2.0	-	-
Foreign tax rate differential.	1.3	7.7	8.3
Valuation allowance adjustment	2.3	-	-
Unbenefited NOL Carryforward	2.3	12.6	-
Other, net	2.1	(1.3)	(1.8)
Effective income tax/(benefit) rate.	2.6	(15.0)	(27.5)

Temporary differences and carryforwards which give rise to current and long-term deferred tax (assets)/liabilities as of May 6, 1993 were as follows (dollars in millions):

	AS OF MAY 6, 1993
Property, plant and equipment.	$ 148
Debt discount.	32
Deferred tax liabilities	180
Pension and retiree medical benefits	(85)
Reserves not deductible until paid	(47)
Other.	(2)
Deferred tax assets before valuation allowance . . .	(134)
Valuation allowance.	85
Deferred tax assets.	(49)
Net deferred tax liabilities	131

A valuation allowance has been provided for deferred tax assets relating to pension and retiree medical benefits due to the long-term nature of their realization. Because of the uncertainty regarding the application of the Code to the Corporation's NOL Carryforwards as a result of the Prepackaged Plan, no deferred tax asset is recorded.

The Corporation has NOL Carryforwards of $113 million remaining from 1992 after a reduction due to cancellation of indebtedness from the Prepackaged Plan. These NOL Carryforwards may be used to offset U.S. taxable income through 2007. The Code will limit the Corporation's annual use of its NOL Carryforwards to the lesser of its taxable income or approximately $30 million plus any unused limit from prior years. Furthermore, due to the uncertainty regarding the application of the Code to the exchange of stock for debt, the Corporation's NOL Carryforwards could be further reduced or eliminated. The Corporation has a $3 million minimum tax credit which may be used to offset U.S. regular tax liability in future years.

During 1991 and 1992, deferred income taxes resulted from certain items being treated differently for financial reporting purposes than for income tax purposes. The tax effect of such differences is summarized as follows (dollars in millions):

	YEARS ENDED DECEMBER 31,	
	1992	1991
Tax benefit carryforwards	$ (19)	$ (9)
Accelerated tax depreciation	(5)	-
Other, net	(3)	(3)
Total deferred provision	(27)	(12)
Classification adjustment of prior years' deferrals	2	(1)
Increase/(decrease) in deferred taxes	(25)	(13)

The Corporation does not provide for U.S. Federal income taxes on the portion of undistributed earnings of foreign subsidiaries which are intended to be permanently reinvested. The cumulative amount of such undistributed earnings totaled approximately $75 million as of May 6, 1993. Any future repatriation of undistributed earnings would not, in the opinion of management, result in significant additional taxes.

INVENTORIES

In accordance with the implementation of fresh start accounting, inventories were stated at fair market value as of May 6, 1993. Most of the Corporation's domestic and Mexican inventories are valued under the LIFO method. As of May 6, 1993, the LIFO values of these inventories were $103 million and would have been the same if they were valued under the FIFO and average production cost methods. Inventories valued under the LIFO method totaled $72 million as of December 31, 1992 and would have been $25 million higher if they were valued under the FIFO and average production cost methods. The remaining inventories as of December 31, 1992 were stated at the lower of cost or market, under the FIFO or average production cost methods. Inventories include material, labor and applicable factory overhead costs. Inventory classifications were as follows (dollars in millions):

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
Finished goods and work-in-process	$ 87	$ 66
Raw materials	54	40
Supplies	7	7
Total	148	113

The LIFO value of U.S. domestic inventories under fresh start accounting exceeded that computed for U.S. Federal income tax purposes by $26 million as of May 6, 1993. As of December 31, 1992, the LIFO value of USG Interiors' inventories acquired under the purchase method exceeded that computed for U.S. Federal income tax purposes by $6 million.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were stated at fair market value as of May 6, 1993 in accordance with fresh start accounting and at cost as of December 31, 1992. Provisions for depreciation are determined principally on a straight-line basis over the expected average useful lives of composite asset groups. Depletion is computed on a basis calculated to spread the cost of gypsum and other applicable resources over the estimated quantities of material recoverable. Interest during construction is capitalized on major property additions. Property, plant and equipment classifications were as follows (dollars in millions):

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
Land and mineral deposits	$ 61	$ 41
Buildings and realty improvements	228	401
Machinery and equipment	478	1,012
	767	1,454
Reserves for depreciation and depletion	-	(654)
Total	767	800

LEASES

The Corporation leases certain of its offices, buildings, machinery and equipment, and autos under noncancellable operating leases. These leases have various terms and renewal options. Lease expense amounted to $11 million, $31 million and $26 million in the period of January 1 through May 6, 1993 and in the years ended December 31, 1992 and 1991, respectively.

INDEBTEDNESS

Total debt, including currently maturing debt, consisted of the following (dollars in millions):

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
SECURED DEBT:		
Bank Debt:		
Bank Term Loan, installments due through 2000	$ 540	$ 840
Revolving Credit Facility	-	140
Capitalized Interest Notes, due through 2000	56	-
Senior notes and debentures:		
7 3/8% Senior Notes due 1991	-	100
8% Senior Notes due 1995	75	-
8% Senior Notes due 1996	90	100
8% Senior Notes due 1997	100	100
9% Senior Notes due 1998	35	-
10 1/4% Senior Notes due 2002	340	-
7 7/8% Sinking Fund Debentures due 2004	41	41
8 3/4% Sinking Fund Debentures due 2017	200	200
Other secured debt, average interest rates 10.5% and 10.9%, varying payments through 1999	40	37
UNSECURED DEBT:		
Industrial revenue bonds, 5.9% ranging to 10.25%, due through 2014	39	38
Old Subordinated Debentures:		
13 1/4% Senior Subordinated Debentures due 2000, sinking fund of $300 million due 1999	-	600
16% Junior Subordinated Debentures due 2008, sinking fund commencing 2004	-	515
Total principal amount of debt	1,556	2,711
Less unamortized reorganization discount	(95)	-
Total carrying amount of debt	1,461	2,711

As of May 6, 1993, the Corporation and its subsidiaries had $1,556 million total principal amount of debt (before unamortized reorganization discount) on a consolidated basis. Of such total debt, $118 million represented direct borrowings by the subsidiaries, including $38 million of industrial revenue bonds, $41 million of 7 7/8% sinking fund debentures issued by U.S. Gypsum in 1974 and subsequently assumed by the Corporation on a joint and several basis in 1985, $33 million of debt (primarily project financing) incurred by the Corporation's foreign subsidiaries other than CGC, $4 million of working capital borrowings by CGC, and $3 million of other long-term borrowings by CGC.

Throughout the Restructuring process (from December 31, 1990 through May 6, 1993), most long-term debt issues were included in current liabilities due to various defaults upon certain of the debt issues which allowed for the possible triggering of acceleration and cross-acceleration provisions. Upon consummation of the Prepackaged Plan, all previously existing defaults were waived or cured and long-term debt included in current liabilities was treated in accordance with the Prepackaged Plan as described in "Financial Restructuring" note above.

The Bank Debt and most other senior debt are secured by a pledge of all of the shares of the Corporation's major domestic subsidiaries and 65% of the shares of certain of its foreign subsidiaries, including CGC, pursuant to a collateral trust arrangement controlled primarily by holders of the Bank Debt. The rights of the Corporation and its creditors to the assets of any subsidiary upon the latter's liquidation or reorganization will be subject to the prior claims of such subsidiary's creditors, except to the extent that the Corporation may itself be a creditor with enforceable claims against such subsidiary. The average rate of interest on the Bank Term Loan, excluding default interest which was cured or waived in accordance with the Prepackaged Plan, was 6.5% in the period of January 1 through May 6, 1993. The rate of interest on the Capitalized Interest Notes issued on May 6, 1993 in connection with the provisions of the Prepackaged Plan was 5.4% based on LIBOR plus 2 1/4%.

The "Other Secured Debt" category shown in the table above primarily includes short-term and long-term borrowings from several foreign banks by USG International used principally to finance construction of the Aubange, Belgium ceiling tile plant. This debt is secured by a lien on the assets of the Aubange plant and has restrictive covenants that restrict, among other things, the payment of dividends. Foreign borrowings made by the Corporation's international operations are generally allowed, within certain limits, under provisions of the Credit Agreement.

In general, the Credit Agreement restricts, among other things, the incurrence of additional indebtedness, mergers, asset dispositions, investments, prepayment of other debt, dealings with affiliates, capital expenditures, payment of dividends and lease commitments.

The fair market value of debt as of May 6, 1993 was $1,421 million, based on estimates of fair market value calculated in connection with implementation of fresh start accounting, excluding other secured debt, primarily representing financing for construction of the Aubange plant that is secured by a direct lien on its assets, which was not practicable to estimate. As of December 31, 1992, the fair market value of debt amounted to $679 million, based on indicative bond prices as of that date excluding the following items which were not practicable to estimate: (i) the bank debt for which there was no active market; (ii) the 7 7/8% senior debentures due 2004 virtually all of which were owned by a single investment group; and (iii) the other secured debt which primarily represented financing for construction of the Aubange plant as described above.

PENSION PLANS

The Corporation and most of its subsidiaries have defined benefit retirement plans for all eligible employees. Benefits of the plans are generally based on years of service and employees' compensation during the last years of employment. The Corporation's contributions are made in accordance with independent actuarial reports which, for most plans, required minimal funding in the period of January 1 through May 6, 1993 and the years ended December 31, 1992 and 1991. Net pension expense/(benefit) included the following components (dollars in millions):

	JANUARY 1 THROUGH MAY 6,	YEARS ENDED DECEMBER 31,	
	1993	1992	1991
Service cost-benefits earned during the period	$ 3	$ 9	$ 5
Interest cost on projected benefit obligation	11	29	29
Actual return on plan assets	(15)	(14)	(79)
Unrecognized prior service cost	1	2	2
Net amortization/(deferral)	2	(25)	41
Net pension expense/(benefit)	2	1	(2)

The pension plan assets, which consist primarily of publicly traded common stocks and debt securities, had an estimated fair market value that equaled the projected benefit obligation as of May 6, 1993 and exceeded the projected benefit obligation as of December 31, 1992. The following table presents a reconciliation of the total assets of the pension plans to the projected benefit obligation (dollars in millions):

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
Amount of assets available for benefits:		
Funded assets of the plans at fair market value	$ 379	$ 383
Accrued pension expense	25	15
Total assets of the plans	404	398
Present value of estimated pension obligation:		
Vested benefits	298	252
Nonvested benefits	24	18
Accumulated benefit obligation	322	270
Additional benefits based on projected future salary increases	82	66
Projected benefit obligation	404	336
Assets in excess of projected benefit obligation	-	62

Assets in excess of projected benefit obligation consisted of the following (dollars in millions):

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
Net assets existing at the date of adoption of SFAS No. 87 not yet recognized	$ -	$ 32
Unrecognized net gain due to changes in assumptions and differences between actual and estimated experience	-	43
Unrecognized cost of retroactive benefits granted by plan amendments	-	(13)
Assets in excess of projected benefit obligation	-	62

The expected long-term rate of return on plan assets was 9% for both the period of January 1 through May 6, 1993 and the year ended December 31, 1992. The assumed weighted average discount rate used in determining the accumulated benefit obligation was 8% and 9% as of May 6, 1993 and December 31, 1992, respectively. The rate of increases in projected future compensation levels was 5.5% for the period of January 1 through May 6, 1993 and the year ended December 31, 1992. The unrecognized cost of retroactive benefits granted by plan amendments was being amortized over 13 years as of December 31, 1992.

POSTRETIREMENT BENEFITS

The Corporation maintains plans that provide retiree health care and life insurance benefits for all eligible employees. Employees generally become eligible for the retiree benefit plans when they meet minimum retirement age and service requirements. The cost of providing most of these benefits is shared with retirees.

Effective January 1, 1993, the Corporation adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its retiree benefit plans. Under this accounting standard, the Corporation is required to accrue the estimated cost of retiree benefit payments during employees' active service period. The Corporation elected to recognize this change in accounting principles on the immediate recognition basis. The cumulative effect as of January 1, 1993 of adopting SFAS No. 106 was a one-time after-tax charge to first quarter 1993 net earnings of $180 million. The Corporation previously expensed the cost of these benefits, which principally relate to health care, as claims were incurred. These costs were $8 million and $7 million in the years ended December 31, 1992 and 1991, respectively.

The following table summarizes the components of net periodic postretirement benefit cost for the period of January 1 through May 6, 1993 (dollars in millions):

	JANUARY 1 THROUGH MAY 6, 1993
Service cost of benefits earned	$ 1
Interest on accumulated postretirement benefit obligation . . .	5
Net periodic postretirement benefit cost.	6

The status of the Corporation's accrued postretirement benefit cost as of May 6, 1993 was as follows (dollars in millions):

	AS OF MAY 6, 1993
Accumulated postretirement benefit obligation:	
Retirees.	$ 118
Fully eligible active participants.	13
Other active participants	62
Accrued postretirement benefit cost liability recognized on the Consolidated Balance Sheet.	193

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 13% as of May 6, 1993 with a gradually declining rate to 6% by the year 2000 and remaining at that level thereafter. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of May 6, 1993 by $18 million and increase the net periodic postretirement benefit cost for the period of January 1 through May 6, 1993 by $1 million. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 8%.

MANAGEMENT PERFORMANCE PLAN

The Performance Plan reserved 8,600,000 shares of Common Stock for issuance in connection with grants of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, deferred stock, performance shares and performance units.

In accordance with the Prepackaged Plan, all outstanding stock options (for 3,786,575 shares) were cancelled without consideration, 1,016,090 shares of restricted and deferred stock were cashed-out pursuant to "change in control" provisions contained in the Performance Plan, and 25,580 shares (after giving effect to the Reverse Stock Split) of restricted stock and awards for deferred stock yet to be issued remained outstanding as a consequence of certain waivers of the change in control event by senior members of management.

Limitations on the Performance Plan in accordance with the Prepackaged Plan provide that: (i) options to purchase a number of shares not to exceed 7.5% of the number of shares of New Common Stock outstanding immediately after giving effect to the Reverse Stock Split and all distributions of New Common Stock under the Prepackaged Plan will be reserved for management incentives (2,788,350 shares); (ii) a portion of such options (not to exceed 4.5% of such number of outstanding shares) may be granted immediately upon consummation of the Prepackaged Plan; (iii) prior to June 22, 1997, the Corporation will not issue, award or grant, for compensatory purposes, any stock (including restricted and deferred stock grants and awards), stock options, stock appreciation rights or other stock-based awards, except for the options described above or as may otherwise be approved by the Corporation's stockholders; and (iv) reference to the year "1988" is deleted from the name of the Performance Plan.

PREFERRED SHARE PURCHASE RIGHTS

On June 6, 1988, the Corporation adopted a Preferred Share Purchase Rights Plan and pursuant to its provisions declared, subject to the consummation of the 1988 Recapitalization, the distribution of one Right upon each new share of Common Stock issued in the 1988 Recapitalization. The 1988 Recapitalization became effective July 13, 1988 and the distribution occurred immediately thereafter. The Rights contain provisions which are intended to protect stockholders in the event of an unsolicited attempt to acquire the Corporation.

The Preferred Share Purchase Rights Plan was terminated in connection with implementation of the Prepackaged Plan. On May 6, 1993, the Rights Agreement was adopted with provisions substantially similar to the old rights except that: (i) the purchase price of the Rights was reset; (ii) the expiration of the Rights was extended; (iii) a so-called "flip-in" feature and exchange feature was added; (iv) certain exemptions were added permitting certain acquisitions and the continued holding of common shares by Water Street and its affiliates in excess of the otherwise specified thresholds; (v) the redemption price was reduced; and (vi) the amendment provision was liberalized.

Under the terms of the Rights Agreement and subject to certain exceptions for Water Street and its affiliates, generally the Rights become exercisable (i) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "ACQUIRING PERSON"), other than the Corporation, any employee benefit plan of the Corporation, any entity holding Common Stock for or pursuant to the terms of any such plan has beneficial ownership (as defined in the Rights Agreement) of 20% or more of the then outstanding Common Stock, (ii) 10 days following the date of a public announcement that a person or group of affiliated or associated persons (an "ADVERSE PERSON") has beneficial ownership of 10% or more of the then outstanding Common Stock, the acquisition of which has been determined by the Board to present an actual threat of an acquisition of the Corporation that would not be in the best interest of the Corporation's stockholders or (iii) 10 days following the date of commencement of, or public announcement of, a tender offer or exchange offer for 30% or more of the Common Stock. When exercisable, each of the Rights entitles the registered holder to purchase one-hundredth of a share of a junior participating preferred stock, series C, $1.00 par value per share, at a price of $35.00 per one-hundredth of a preferred share, subject to adjustment.

In the event that the Corporation is the surviving corporation in a merger or other business combination involving an Acquiring Person or an Adverse Person and the Common Stock remains outstanding and unchanged or in the event that an Acquiring Person or an Adverse Person engages in one of a number of self-dealing transactions specified in the Rights Agreement, proper provision will be made so that each holder of a Right, other than Rights that are or were beneficially owned (as defined in the Rights Agreement) by the Acquiring Person or the Adverse Person, as the case may be, on the earliest of the Distribution Date, the date the Acquiring Person acquires 20% or more of the outstanding Common Stock or the date the Adverse Person becomes such (which will thereafter be void), will thereafter have the right to receive upon exercise thereof that number of shares of Common Stock having a market value at the time of such transaction of two times the exercise price of the Right. In addition, under certain circumstances the Board has the option of exchanging all or part of the Rights (excluding void Rights) for Common Stock in the manner described in the Rights Agreement. The Rights Agreement also contains a so-called "flip-in" feature which provides that if any person or group of affiliated or associated persons becomes an Adverse Person, then the provisions of the preceding two sentences shall apply.

WARRANTS

On May 6, 1993, a total of 2,602,566 Warrants were issued to holders of the Old Junior Subordinated Debentures in addition to the shares of Common Stock issued to such holders, all as provided by the Prepackaged Plan. Upon issuance, each of the Warrants entitled the holder to purchase one share of Common Stock at a purchase price of $16.14 per share, subject to adjustment under certain events.

The Warrants are exercisable, subject to applicable securities laws, at any time prior to May 6, 1998. Each share of Common Stock issued upon exercise of a Warrant prior to the Distribution Date (as defined in the Rights Agreement) and prior to the redemption or expiration of the Rights will be accompanied by an attached Right issued under the terms and subject to the conditions of the Rights Agreement as it may then be in effect.

STOCKHOLDERS' EQUITY

Changes in stockholders' equity are summarized as follows (dollars in millions):

	JANUARY 1 THROUGH MAY 6,	YEARS ENDED DECEMBER 31,	
	1993	1992	1991
COMMON STOCK:			
Beginning Balance....................	$ 5	$ 5	$ 5
Reverse Stock Split..................	(4)	-	-
Issuance of New Common Stock.........	3	-	-
Ending Balance	4	5	5
CAPITAL RECEIVED IN EXCESS OF PAR VALUE:			
Beginning Balance.....................	23	24	23
Restructuring adjustments.............	444	-	-
Fresh start accounting adjustment.....	(467)	-	-
Other, net	-	(1)	1
Ending Balance	-	23	24
DEFERRED CURRENCY TRANSLATION:			
Beginning Balance......................	(8)	-	-
Change during the period...............	1	(8)	-
Fresh start accounting adjustment......	7	-	-
Ending Balance	-	(8)	-
REINVESTED EARNINGS/(DEFICIT):			
Beginning Balance.......................	(1,900)	(1,709)	(1,546)
Net earnings/(loss)	1,434	(191)	(161)
Fresh start accounting adjustment.......	467	-	-
Other, net	(1)	-	(2)
Ending Balance	-	(1,900)	(1,709)
Total stockholders' equity/(deficit)	4	(1,880)	(1,680)

The Corporation is authorized to issue 36,000,000 shares of $1 par value preferred stock, however, none were outstanding as of May 6, 1993 or December 31, 1992.

As of May 6, 1993, the number of authorized shares of Common Stock, $0.10 par value, was 200,000,000 shares, reduced from 300,000,000 shares in accordance with the Prepackaged Plan. After giving effect to the Reverse Stock Split and distribution of New Common Stock pursuant to the Prepackaged Plan, there were 37,157,458 shares of Common Stock outstanding, excluding 27,556 shares held in treasury, as of May 6, 1993. As of December 31, 1992, there were 55,757,394 shares of Common Stock outstanding, after deducting 368,409 shares held in treasury. The treasury shares were acquired through the forfeiture of restricted stock.

LITIGATION

One of the Corporation's subsidiaries, U.S. Gypsum, is among numerous defendants in lawsuits arising out of the manufacture and sale of asbestos-containing building materials. U.S. Gypsum sold certain asbestos-containing products beginning in the 1930's; in most cases the products were discontinued or asbestos was removed from the product formula by 1972, and no asbestos-containing products were sold after 1977. Some of these lawsuits seek to recover compensatory and in many cases punitive damages for costs associated with maintenance or removal and replacement of products containing asbestos (the "PROPERTY DAMAGE CASES"). Others of these suits (the "PERSONAL INJURY CASES") seek to recover compensatory and in many cases punitive damages for personal injury allegedly resulting from exposure to asbestos and asbestos-containing products. It is anticipated that additional personal injury and property damage cases containing similar allegations will be filed.

As discussed below, U.S. Gypsum has substantial personal injury and property damage insurance for the years involved in the asbestos litigation. Prior to 1985, when an asbestos exclusion was added to U.S. Gypsum's policies, U.S. Gypsum purchased comprehensive general liability insurance policies covering personal injury and property damage in an aggregate face amount of approximately $850 million. Insurers that issued approximately $100 million of these policies are presently insolvent. Because U.S. Gypsum's insurance carriers initially responded to its claims for defense and indemnification with various theories denying or limiting coverage and the applicability of their policies, U.S. Gypsum filed a declaratory judgment action against them in the Circuit Court of Cook County, Illinois on December 29, 1983. (U.S. GYPSUM CO. V. ADMIRAL INSURANCE CO., ET AL.) (the "COVERAGE ACTION"). U.S. Gypsum alleges in the Coverage Action that the carriers are obligated to provide indemnification for settlements and judgments and, in some cases, defense costs incurred by U.S. Gypsum in personal injury and property damage cases in which it is a defendant. The current defendants are ten insurance carriers that provided comprehensive general liability insurance coverage to U.S. Gypsum between the 1940's and 1984. As discussed below, several carriers have settled all or a portion of the claims in the Coverage Action.

U.S. Gypsum's aggregate expenditures for all asbestos-related matters, including property damage, personal injury, insurance coverage litigation and related expenses, exceeded aggregate insurance payments by $10.9 million and $25.8 million in the years ended December 31, 1991 and 1992, respectively, and by $3.8 million in the period of January 1 through May 6, 1993.

PROPERTY DAMAGE CASES

The Property Damage Cases have been brought against U.S. Gypsum by a variety of plaintiffs, including school districts, state and local governments, colleges and universities, hospitals, and private property owners. U.S. Gypsum is one of many defendants in four cases that have been certified as class actions and others that request such certification. One class action suit is brought on behalf of owners and operators of all elementary and secondary schools in the United States that contain or contained friable asbestos-containing material. (IN RE ASBESTOS SCHOOL LITIGATION, U.S.D.C., E.D. Pa.) Approximately 1,350 school districts opted out of the class, some of which have filed or may file separate lawsuits or are participants in a state court class action involving approximately 333 school districts in Michigan. (BOARD OF EDUCATION OF THE CITY OF DETROIT, ET AL. V. THE CELOTEX CORP., ET AL., Cir. Ct. for Wayne County, Mich.) On April 10, 1992, a state court in Philadelphia certified a class consisting of all owners of buildings leased to the federal government. (PRINCE GEORGE CENTER, INC. V. U.S. GYPSUM CO., ET AL., Ct. of Common Pleas, Philadelphia, Pa.) On September 4, 1992, a Federal district court in South Carolina conditionally certified a class comprised of all colleges and universities in the United States, which certification is presently limited to the resolution of certain allegedly "common" liability issues. (CENTRAL WESLEYAN COLLEGE, V. W.R. GRACE & CO., ET AL., U.S.D.C., S.C.). On December 23, 1992, a case was filed in state court in South Carolina purporting to be a "voluntary" class action on behalf of owners of all buildings containing certain types of asbestos-containing products manufactured by the nine named defendants, including U.S. Gypsum, other than buildings owned by the federal or state governments, single family residences, or buildings at issue in the four above described class actions (ANDERSON COUNTY HOSPITAL V. W.R. GRACE & CO., ET AL., Court of Common Pleas, Hampton Co., S.C. (the "ANDERSON CASE"). On January 14, 1993, the plaintiff filed an amended complaint that added a number of defendants, including the Corporation. The amended complaint alleges, among other things, that the guarantees executed by U.S. Gypsum in connection with the 1988 Recapitalization, as well as subsequent distributions of cash from U.S. Gypsum to the Corporation, rendered U.S. Gypsum insolvent and constitute a fraudulent conveyance. The suit seeks to set aside the guarantees and recover the value of the cash flow "diverted" from U.S. Gypsum to the Corporation in an amount to be determined. This case has not been certified as a class action and no other threshold issues, including whether the South Carolina Courts have personal jurisdiction over the Corporation, have been decided. The damages claimed against U.S. Gypsum in the class action cases are unspecified. U.S. Gypsum has denied the substantive allegations of each of the Property Damage Cases and intends to defend them vigorously except when advantageous settlements are possible.

As of May 6, 1993, 67 Property Damage Cases were pending against U.S. Gypsum; however, the number of buildings involved is greater than the number of cases because many of these cases, including the class actions referred to above, involve multiple buildings. Approximately 40 property damage claims have been threatened against U.S. Gypsum.

In total, U.S. Gypsum has settled property damage claims of approximately 187 plaintiffs involved in approximately 71 cases. Twenty-two cases have been tried to verdict, 13 of which were won by U.S. Gypsum and 7 lost; two other cases, one won at the trial level and one lost, were settled after appeals. Appeals are pending in 4 of the tried cases. In the cases lost, compensatory damage awards against U.S. Gypsum have totaled $12.5 million. Punitive damages totaling $5.5 million were entered against U.S. Gypsum in four trials. Two of the punitive damage awards, totaling $1.45 million, were paid after appeals were exhausted; a third was settled after the verdict was reversed on appeal. The remaining punitive award is on appeal.

In 1991, 13 new Property Damage Cases were filed against U.S. Gypsum, 11 were dismissed before trial, 8 were settled, 2 were closed following trial or appeal, and 100 were pending at year end; U.S. Gypsum expended $22.2 million for the defense and resolution of Property Damage Cases and received insurance payments of $13.8 million in 1991. In 1992, 7 new Property Damage Cases were filed against U.S. Gypsum, 10 were dismissed before trial, 18 were settled, 3 were closed following trial or appeal, and 76 were pending at year end. U.S. Gypsum expended $34.9 million for the defense and resolution of Property Damage Cases and received insurance payments of $10.2 million in 1992. In the period of January 1 through May 6, 1993, no new Property Damage Cases were filed against U.S. Gypsum, 2 were dismissed before trial, 7 were settled, and 67 were pending at the end of the period. U.S. Gypsum expended $7.0 million for the defense and resolution of Property Damage Cases and received insurance payments of $3.7 million in the period.

In the Property Damage Cases litigated to date, a defendant's liability for compensatory damages, if any, has been limited to damages associated with the presence and quantity of asbestos-containing products manufactured by that defendant which are identified in the buildings at issue, although plaintiffs in some cases have argued that principles of joint and several liability should apply. Because of the unique factors inherent in each of the Property Damage Cases, including the lack of reliable information as to product identification and the amount of damages claimed against U.S. Gypsum in many cases, including the class actions described above, management is unable to make a reasonable estimate of the cost of disposing of pending Property Damage Cases.

PERSONAL INJURY CASES

U.S. Gypsum was among numerous defendants in asbestos personal injury suits and administrative claims involving 57,645 claimants pending as of May 6, 1993. All asbestos bodily injury claims pending in the federal courts, including approximately one-third of the Personal Injury Cases pending against U.S.Gypsum, have been consolidated in the United States District Court for the Eastern District of Pennsylvania.

U.S. Gypsum is a member, together with 19 other former producers of asbestos-containing products, of the Center for Claims Resolution (the "CENTER"). The Center has assumed the handling, including the defense and settlement, of all Personal Injury Cases pending against U.S. Gypsum and the other members of the Center. Each member of the Center is assessed a portion of the liability and defense costs of the Center for the Personal Injury Cases handled by the Center, according to predetermined allocation formulas. Five of U.S. Gypsum's insurance carriers that in 1985 signed an Agreement Concerning Asbestos-Related Claims (the "WELLINGTON AGREEMENT") are supporting insurers (the "SUPPORTING INSURERS") of the Center. The Supporting Insurers are obligated to provide coverage for the defense and indemnity costs of the Center's members pursuant to the coverage provisions in the Wellington Agreement. Claims for punitive damages are defended but not paid by the Center; if punitive damages are recovered, insurance coverage may be available under the Wellington Agreement depending on the terms of particular policies and applicable state law. Punitive damages have not been awarded against U.S. Gypsum in any of the Personal Injury Cases. Virtually all of U.S. Gypsum's personal injury liability and defense costs are paid by those of its insurance carriers that are Supporting Insurers. The Supporting Insurers provided approximately $350 million of the total coverage referred to above.

On January 15, 1993, U.S. Gypsum and the other members of the Center were named as defendants in a class action filed in the U.S. District Court for the Eastern District Pennsylvania (GEORGINE ET AL. V. AMCHEM PRODUCTS INC., ET AL., Case No. 93-CV-0215) (hereinafter "GEORGINE," formerly known as "CARLOUGH"). The complaint generally defines the class of plaintiffs as all persons who have been occupationally exposed to asbestos-containing products manufactured by the defendants and who had not filed an asbestos personal injury suit as of the date of the filing of the class action. Simultaneously with the filing of the class action, the parties filed a settlement agreement in which the named plaintiffs, proposed class counsel, and the defendants agreed to settle and compromise the claims of the proposed class. The settlement, if approved by the court, will implement for all future Personal Injury Cases, except as noted below, an administrative compensation system to replace judicial claims against the defendants, and will provide fair and adequate compensation to future claimants who can demonstrate exposure to asbestos-containing products manufactured by the defendants and the presence of an asbestos-related disease. Class members will be given the opportunity to "opt out," or elect to be excluded from the settlement, although the defendants reserve the right to withdraw from the settlement if the number of opt outs is, in their sole judgment, excessive. In addition, in each year a limited number of claimants will have certain rights to prosecute their claims for compensatory (but not punitive) damages in court in the event they reject compensation offered by the administrative processing of their claim.

The Center members, including U.S. Gypsum, have instituted proceedings against those of their insurance carriers that had not consented to support the settlement, seeking a declaratory judgment that the settlement is reasonable and, therefore, that the carriers are obligated to fund their portion of it. Consummation of the settlement is contingent upon, among other things, court approval of the settlement and a favorable ruling in the declaratory judgment proceedings against the non-consenting insurers. It is anticipated that appeals will follow the district court's ruling on the fairness and reasonableness of the settlement.

Each of the defendants has committed to fund a defined portion of the settlement, up to a stated maximum amount, over the initial ten-year period of the agreement (which is automatically extended unless terminated by the defendants). Taking into account the provisions of the settlement agreement concerning the maximum number of claims that must be processed in each year and the total amount to be made available to the claimants, the Center estimates that U.S. Gypsum will be obligated to fund a maximum of approximately $125 million of the class action settlement, exclusive of expenses, with a maximum payment of less than $18 million in any single year; of the total amount of U.S. Gypsum's obligation, all but approximately $13 million or less is expected to be paid by U.S. Gypsum's insurance carriers.

During 1991, approximately 13,100 Personal Injury Cases were filed against U.S. Gypsum and approximately 6,300 were settled or dismissed. U.S. Gypsum incurred expenses of $15.1 million in 1991 with respect to Personal Injury Cases, of which $15.0 million was paid by insurance. During 1992, approximately 20,100 Personal Injury Cases were filed against U.S. Gypsum and approximately 10,600 were settled or dismissed. U.S. Gypsum incurred expenses of $21.6 million in 1992 with respect to Personal Injury Cases of which $21.5 million was paid by insurance. In the period of January 1 through May 6, 1993, approximately 8,700 Personal Injury Cases were filed against U.S. Gypsum and approximately 5,300 were settled or dismissed. U.S. Gypsum incurred expenses of $10.9 million in the period with respect to Personal Injury Cases of which $10.8 million was paid by insurance. As of May 6, 1993, December 31, 1992 and December 31, 1991, approximately 58,000, 54,000 and 43,000 Personal Injury Cases were outstanding against U.S. Gypsum, respectively.

U.S. Gypsum's average settlement cost for Personal Injury Cases over the past three years has been approximately $1,350 per claim, exclusive of defense costs. Management anticipates that its average settlement cost is likely to increase due to such factors as the possible insolvency of co-defendants, although this increase may be offset to some extent by other factors, including the possibility for block settlements of large numbers of cases and the apparent increase in the percentage of asbestos personal injury cases that appear to have been brought by individuals with little or no physical impairment. In management's opinion, based primarily upon U.S. Gypsum's experience in the Personal Injury Cases disposed of to date and taking into consideration a number of uncertainties, it is probable that asbestos-related Personal Injury Cases pending against U.S. Gypsum as of December 31, 1992, can be disposed of for an amount estimated to be between $80 million and $100 million, including both indemnity costs and legal fees and expenses. The estimated cost of resolving pending claims takes into account, among other factors, (i) an increase in the number of pending claims; (ii) the settlements of certain large blocks of claims for higher per-case averages than have historically been paid; and (iii) a slight increase in U.S. Gypsum's historical settlement average. No accrual has been recorded for this amount because, pursuant to the Wellington Agreement, U.S. Gypsum's Supporting Insurers are obligated to pay these costs.

Assuming that the Georgine class action settlement referred to above is approved substantially in its current form, management estimates, based on assumptions supplied by the Center, U.S. Gypsum's maximum total exposure in Personal Injury Cases during the next ten years (the initial term of the agreement), including liability for pending claims, claims resolved as part of the class action settlement, and opt out claims, as well as defense costs and other expenses, at approximately $271 million, of which at least $254 million is expected to be paid by insurance. U.S. Gypsum's additional exposure for claims filed by persons who have opted out of Georgine would depend on the number of such claims that are filed, which cannot presently be determined.

COVERAGE ACTION

As indicated above, all of U.S. Gypsum's carriers initially denied coverage for the Property Damage Cases and the Personal Injury Cases, and U.S. Gypsum initiated the Coverage Action to establish its right to such coverage. U.S. Gypsum has voluntarily dismissed the Supporting Insurers referred to above from the personal injury portion of the Coverage Action because they are committed to providing personal injury coverage in accordance with the Wellington Agreement. U.S. Gypsum's claims against the remaining carriers for coverage for the Personal Injury Cases have been stayed since 1984.

On January 7, 1991, the trial court in the Coverage Action ruled on the applicability of U.S. Gypsum's insurance policies to settlements and one adverse judgment in eight Property Damage Cases. The court ruled that the eight cases were generally covered, and imposed coverage obligations on particular policy years based upon the dates when the presence of asbestos-containing material was "first discovered" by the plaintiff in each case. The court awarded reimbursement of approximately $6.2 million spent by U.S. Gypsum to resolve the eight cases. U.S. Gypsum has appealed the court's ruling with respect to the policy years available to cover particular claims, and the carriers have appealed most other aspects of the court's ruling. These appeals are likely to take a year or more.

U.S. Gypsum's experience in the Property Damage Cases suggests that "first discovery" dates in the eight cases referred to above (1978 through 1985) are likely to be typical of most pending cases. U.S. Gypsum's total insurance coverage for the years 1978 through 1984 totals approximately $350 million (after subtracting insolvencies and discounts given to settling carriers). However, some pending cases, as well as some cases filed in the future, may be found to have first discovery dates later than August 1, 1984, after which U.S. Gypsum's insurance policies did not provide coverage for asbestos-related claims. In addition, as described below, the first layer excess carrier for the years 1980 through 1984 is insolvent and U.S. Gypsum may be required to pay amounts otherwise covered by those and other insolvent policies. Accordingly, if the court's ruling is affirmed, U.S. Gypsum will likely be required to bear a portion of the cost of the property damage litigation.

Eight carriers, including two of the Supporting Insurers, have settled U.S. Gypsum's claims for both property damage and personal injury coverage and have been dismissed from the Coverage Action entirely. Four of these carriers have agreed to pay all or a substantial portion of their policy limits to U.S. Gypsum beginning in 1991 and continuing over the next four years. Three other excess carriers, including the two settling Supporting Insurers, have agreed to provide coverage for the Property Damage Cases and the Personal Injury Cases subject to certain limitations and conditions, when and if underlying primary and excess coverage is exhausted. It cannot presently be determined when such coverage might be reached. Taking into account the above settlements, including participation of certain of the settling carriers in the Wellington Agreement, and consumption through December 31, 1992, carriers providing a total of approximately $97 million of unexhausted insurance have agreed, subject to the terms of the various settlement agreements, to cover both Personal Injury Cases and Property Damage Cases. Carriers providing an additional $276 million of coverage that was unexhausted as of December 31, 1992 have agreed to cover Personal Injury Cases under the Wellington Agreement, but continue to contest coverage for Property Damage Cases and remain defendants in the Coverage Action. U.S. Gypsum will continue to seek negotiated resolutions with its carriers in order to minimize the expense and delays of litigation.

Insolvency proceedings have been instituted against four of U.S. Gypsum's insurance carriers. Midland Insurance Company, declared insolvent in 1986, provided excess insurance ($4 million excess of $1 million excess of $500,000 primary in each policy year) from February 15, 1975 to February 15, 1978; Transit Casualty Company, declared insolvent in 1985, provided excess insurance ($15 million excess of $1 million primary in each policy year) from August 1, 1980 to December 31, 1985; Integrity Insurance Company, declared insolvent in 1986, provided excess insurance ($10 million quota share of $25 million excess of $90 million) from August 1, 1983 to July 31, 1984; and American Mutual Insurance Company, declared insolvent in 1989, provided the primary layer of insurance ($500,000 per year) from February 1, 1963 to April 15, 1971. It is possible that U.S. Gypsum will be required to pay a presently indeterminable portion of the costs that would otherwise have been covered by these policies.

It is not possible to predict the number of additional lawsuits alleging asbestos-related claims that may be filed against U.S. Gypsum. The number of Personal Injury Claims pending against U.S. Gypsum has increased in each of the last several years. In addition, many Property Damage Cases are still at an early stage and the potential liability therefrom is consequently uncertain. In view of the limited insurance funding currently available for the Property Damage Cases resulting from the continued resistance by a number of U.S. Gypsum's insurers to providing coverage, the effect of the asbestos litigation on the Corporation will depend upon a variety of factors, including the damages sought in the Property Damage Cases that reach trial prior to the completion of the Coverage Action, U.S. Gypsum's ability to successfully defend or settle such cases, and the resolution of the Coverage Action. As a result, management is unable to determine whether an adverse outcome in the asbestos litigation will have a material adverse effect on the results of operations or the consolidated financial position of the Corporation.

ENVIRONMENTAL LITIGATION

The Corporation and certain of its subsidiaries have been notified by state and federal environmental protection agencies of possible involvement as one of numerous "potentially responsible parties" in a number of so-called "Superfund" sites in the United States. In substantially all of these sites, the involvement of the Corporation or its subsidiaries is expected to be minimal. The Corporation believes that appropriate reserves have been established for its potential liability in connection with all Superfund sites but is continuing to review its accruals as additional information becomes available. Such reserves take into account all known or estimable costs associated with these sites including site investigations and feasibility costs, site cleanup and remediation, legal costs, and fines and penalties, if any. In addition, environmental costs connected with site cleanups on USG-owned property are also covered by reserves established in accordance with the foregoing. The Corporation believes that neither these matters nor any other known governmental proceeding regarding environmental matters will have a material adverse effect upon its earnings or consolidated financial position.

GEOGRAPHIC AND INDUSTRY SEGMENTS

Transactions between geographic areas are accounted for on an "arm's-length" basis. No single customer accounted for 4% or more of consolidated net sales. Export sales to foreign unaffiliated customers represent less than 10% of consolidated net sales.

Intrasegment and intersegment eliminations largely reflect intercompany sales from U.S. Gypsum to L&W Supply. Segment operating profit/(loss) includes all costs and expenses directly related to the segment involved and an allocation of expenses which benefit more than one segment. Geographic and industry segment data for 1991 exclude discontinued operations.

To assist the reader in evaluating the profitability of each geographic and industry segment, EBITDA is shown separately in the following tables. EBITDA represents earnings before interest, taxes, depreciation, depletion and amortization. For the period of January 1 through May 6, 1993, the Corporation also added back non-cash postretirement charges, reorganization items, an extraordinary gain and the cumulative impact of changes in accounting principles. The Corporation believes EBITDA is helpful in understanding cash flow generated from operations that is available for taxes, debt service and capital expenditures. In addition, EBITDA facilitates the monitoring of covenants related to certain long-term debt and other agreements entered into in conjunction with the Restructuring. EBITDA should not be considered by investors as an alternative to net earnings as an indicator of the Corporation's operating performance or to cash flows as a measure of its overall liquidity. Certain amounts for 1992 and 1991 have been reclassified to conform to the current period presentation.

Variations in the levels of corporate identifiable assets primarily reflect fluctuations in the levels of cash and cash equivalents. Restricted cash of $88 million and $84 million, which represents the proceeds from the sale of DAP, are included in corporate identifiable assets for 1992 and 1991, respectively.

JANUARY 1 THROUGH MAY 6, 1993 GEOGRAPHIC SEGMENTS	NET SALES	OPERATING PROFIT/ (LOSS)	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
	(Dollars in millions)					
United States:						
Gypsum Products.................	$ 303	$ 30	$ 40	$ 10	$ 6	$ 956
Interior Systems................	121	10	15	5	2	562
Building Products Distribution	156	(1)	-	1	1	116
Intrasegment eliminations	(73)	-	-	-	-	-
Corporate.......................	-	(11)	(7)	2	-	142
Total...........................	507	28	48	18	9	1,776
Canada............................	48	4	7	2	1	198
Other Foreign	65	6	8	2	2	221
Transfers between geographic areas	(29)	-	-	-	-	(1)
Total.............................	591	38	63	22	12	2,194

INDUSTRY SEGMENTS	NET SALES	OPERATING PROFIT/ (LOSS)	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
Gypsum Products...................	$359	$37	$ 50	$ 13	$ 7	$1,175
Interior Systems..................	177	13	20	6	4	761
Building Products Distribution	156	(1)	-	1	1	116
Intersegment eliminations	(101)	-	-	-	-	-
Corporate.........................	-	(11)	(7)	2	-	142
Total.............................	591	38	63	22	12	2,194

YEAR ENDED DECEMBER 31, 1992 GEOGRAPHIC SEGMENTS	NET SALES	OPERATING PROFIT	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
		(Dollars in millions)				
United States:						
Gypsum Products.................	$889	$69	$ 99	$ 30	$ 25	$ 645
Interior Systems................	368	34	47	13	11	260
Building Products Distribution	464	3	5	2	3	95
Intrasegment eliminations	(216)	-	-	-	-	-
Corporate.......................	-	(30)	(28)	8	1	423
Total...........................	1,505	76	123	53	40	1,423
Canada............................	149	7	14	7	6	96
Other Foreign	208	16	22	6	3	140
Transfers between geographic areas	(85)	-	-	-	-	-
Total.............................	1,777	99	159	66	49	1,659

INDUSTRY SEGMENTS	NET SALES	OPERATING PROFIT	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
Gypsum Products...................	$1,068	$85	$ 123	$ 38	$ 31	$ 764
Interior Systems..................	548	41	59	18	14	377
Building Products Distribution	464	3	5	2	3	95
Intersegment eliminations	(303)	-	-	-	-	-
Corporate.........................	-	(30)	(28)	8	1	423
Total.............................	1,777	99	159	66	49	1,659

YEAR ENDED DECEMBER 31, 1991 GEOGRAPHIC SEGMENTS	NET SALES	OPERATING PROFIT	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
	(Dollars in millions)					
United States:						
Gypsum Products.................	$835	$64	$ 93	$ 29	$ 23	$ 627
Interior Systems................	386	47	59	12	9	263
Building Products Distribution	424	-	4	4	1	85
Intrasegment eliminations	(212)	-	-	-	-	-
Corporate.......................	-	(22)	(19)	10	1	383
Total...........................	1,433	89	137	55	34	1,358
Canada............................	169	22	29	7	3	111
Other Foreign	193	22	28	6	12	157
Transfers between geographic areas	(83)	-	-	-	-	-
Total.............................	1,712	133	194	68	49	1,626

INDUSTRY SEGMENTS	NET SALES	OPERATING PROFIT	EBITDA	DEPRECIATION DEPLETION AND AMORTIZATION	CAPITAL EXPENDITURES	IDENTIFIABLE ASSETS
Gypsum Products...................	$1,011	$93	$ 131	$ 37	$ 25	$ 754
Interior Systems..................	576	62	78	17	22	404
Building Products Distribution	424	-	4	4	1	85
Intersegment eliminations	(299)	-	-	-	-	-
Corporate.........................	-	(22)	(19)	10	1	383
Total.............................	1,712	133	194	68	49	1,626

TRANSFERS BETWEEN GEOGRAPHIC AREAS	JANUARY 1 THROUGH MAY 6, 1993	YEARS ENDED DECEMBER 31, 1992	1991
	(Dollars in millions)		
United States..................................	$ 13	$ 35	$ 34
Canada...	8	23	22
Other Foreign..................................	8	27	27
Total..	29	85	83

SUBSIDIARY DEBT GUARANTEES

In May 1993, the Corporation issued $340 million aggregate principal amount of Senior 2002 Notes. Each of U.S. Gypsum, USG Industries, Inc., USG Interiors, USG Foreign Investments, Ltd., L&W Supply, Westbank Planting Company, USG Interiors International, Inc., American Metals Corporation and La Mirada Products Co., Inc. (together, the "COMBINED GUARANTORS") guaranteed, in the manner described below, both the obligations of the Corporation under the Credit Agreement and the Senior 2002 Notes. The Combined Guarantors are jointly and severally liable under the Subsidiary Guarantees. Holders of the Bank Debt have the right to (i) determine whether, when and to what extent the guarantees will be enforced (provided that each guarantee payment will be applied to the Bank Term Loan, Revolving Credit Facility, Capitalized Interest Notes and Senior 2002 Notes pro rata based on the respective amounts owed thereon) and (ii) amend or eliminate the guarantees. The guarantees will terminate when the Bank Term Loan, the Revolving Credit Facility and the Capitalized Interest Notes are retired regardless of whether any Senior 2002 Notes remain unpaid. The liability of each of the Combined Guarantors on its guarantee is limited to the greater of (i) 95% of the lowest amount, calculated as of July 13, 1988, sufficient to render the guarantor insolvent, leave the guarantor with unreasonably small capital or leave the guarantor unable to pay its debts as they become due (each as defined under applicable law) and (ii) the same amount, calculated as of the date any demand for payment under such guarantee is made, in each case plus collection costs. The guarantees are senior obligations of the applicable guarantor and rank PARI PASSU with all unsubordinated obligations of the guarantor.

There are 43 Non-Guarantors (the "COMBINED NON-GUARANTORS"), substantially all of which are subsidiaries of Guarantors. The Combined Non-Guarantors primarily include CGC, Gypsum Transportation Limited, USG Canadian Mining Ltd. and the Corporation's Mexican, European and Pacific subsidiaries. The long-term debt of the Combined Non-Guarantors of $28 million as of May 6, 1993 has restrictive covenants that restrict, among other things, the payment of dividends.

The following condensed consolidating information presents:

(i) Condensed financial statements as of May 6, 1993 and December 31, 1992 and for the period of January 1 through May 6, 1993, and the years ended December 31, 1992 and 1991 of: (a) the Corporation on a parent company only basis (the "PARENT COMPANY," which was the only entity of the Corporation included in the bankruptcy proceeding); (b) the Combined Guarantors; (c) the Combined Non-Guarantors; and (d) the Corporation on a consolidated basis. Due to the Restructuring and implementation of fresh start accounting, the financial statements for the restructured company (periods after May 6, 1993) are not comparable to those of the predecessor company. Except for the following condensed financial statements, separate financial information with respect to the Combined Guarantors is omitted as such separate financial information is not deemed material to investors.

(ii) The Parent Company and Combined Guarantors shown with their investments in their subsidiaries accounted for on the equity method.

(iii) Elimination entries necessary to consolidate the Parent Company and its subsidiaries.

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
JANUARY 1 THROUGH MAY 6, 1993
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET SALES	$ -	$ 501	$ 113	$ (23)	$ 591
GROSS PROFIT	1	84	24	-	109
OPERATING PROFIT/(LOSS)	(11)	39	10	-	38
Equity in net earnings of the Subsidiaries	(751)	(169)	-	920	-
Interest expense, net	80	3	1	-	84
Corporate service charge	(92)	92	-	-	-
Other expense	1	5	-	-	6
Reorganization items	53	(597)	(165)	-	(709)
EARNINGS BEFORE TAXES ON INCOME, EXTRAORDINARY GAIN AND CHANGES IN ACCOUNTING PRINCIPLES	698	705	174	(920)	657
Taxes on income/(income tax benefit)	37	(24)	4	-	17
EARNINGS BEFORE EXTRAORDINARY GAIN AND CHANGES IN ACCOUNTING PRINCIPLES	661	729	170	(920)	640
Extraordinary gain, net of taxes	944	-	-	-	944
Cumulative effect of changes in accounting principles	(171)	22	(1)	-	(150)
NET EARNINGS	1,434	751	169	(920)	1,434

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1992
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET SALES.	$ -	$ 1,503	$ 359	$ (85)	$ 1,777
GROSS PROFIT/(LOSS).	(2)	251	68	-	317
OPERATING PROFIT/(LOSS).	(30)	105	24	-	99
Equity in net (earnings)/loss of the Subsidiaries	230	(17)	-	(213)	-
Interest expense, net.	310	10	2	-	322
Corporate service charge	(340)	340	-	-	-
Other expense/(income)	(73)	75	(1)	-	1
EARNINGS/(LOSS) BEFORE TAXES ON INCOME . . .	(157)	(303)	23	213	(224)
Taxes on income/(income tax benefit)	34	(73)	6	-	(33)
NET EARNINGS/(LOSS).	(191)	(230)	17	213	(191)

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1991
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET SALES.	$ -	$ 1,452	$ 366	$ (106)	$ 1,712
GROSS PROFIT	1	241	85	-	327
OPERATING PROFIT/(LOSS).	(22)	110	45	-	133
Equity in net (earnings)/loss of the Subsidiaries	185	(30)	-	(155)	-
Interest expense, net.	305	15	2	-	322
Corporate service charge	(331)	331	-	-	-
Other expense/(income)	6	(2)	1	-	5
EARNINGS/(LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES ON INCOME	(187)	(204)	42	155	(194)
Taxes on income/(income tax benefit)	15	(80)	12	-	(53)
EARNINGS/(LOSS) FROM CONTINUING OPERATIONS .	(202)	(124)	30	155	(141)
Discontinued operations.	41	(61)	-	-	(20)
NET EARNINGS/(LOSS).	(161)	(185)	30	155	(161)

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF MAY 6, 1993
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 24	$ (7)	$ 32	$ -	$ 49
Receivables, net	55	236	49	(25)	315
Inventories	-	111	39	(2)	148
Total current assets	79	340	120	(27)	512
PROPERTY, PLANT AND EQUIPMENT, NET	22	628	117	-	767
INVESTMENT IN SUBSIDIARIES	1,823	312	-	(2,135)	-
EXCESS REORGANIZATION VALUE	-	671	180	-	851
OTHER ASSETS	(103)	159	5	3	64
Total assets	1,821	2,110	422	(2,159)	2,194
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	$ 176	$ 76	$ 52	$ (24)	$ 280
Notes payable and long-term debt maturing within one year	3	1	11	-	15
Total current liabilities	179	77	63	(24)	295
LONG-TERM DEBT	1,371	47	28	-	1,446
DEFERRED INCOME TAXES	-	155	15	-	170
OTHER LIABILITIES	267	8	4	-	279
STOCKHOLDERS' EQUITY:					
Common stock	4	1	6	(7)	4
Capital received in excess of par value	-	1,678	306	(1,984)	-
Deferred currency translation	-	-	-	-	-
Reinvested earnings	-	144	-	(144)	-
Total stockholders' equity	4	1,823	312	(2,135)	4
Total liabilities and stockholders' equity	1,821	2,110	422	(2,159)	2,194

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 1992
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 59	$ 87	$ 34	$ -	$ 180
Receivables (net of reserves)	65	219	40	(25)	299
Inventories	-	82	34	(3)	113
Restricted cash	-	88	-	-	88
Total current assets	124	476	108	(28)	680
PROPERTY, PLANT AND EQUIPMENT, NET	19	664	117	-	800
INVESTMENT IN SUBSIDIARIES	1,073	133	-	(1,206)	-
PURCHASED GOODWILL, NET	-	61	8	-	69
OTHER ASSETS	(89)	214	(11)	(4)	110
Total assets	1,127	1,548	222	(1,238)	1,659
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	$ 538	$ 91	$ 39	$ (24)	$ 644
Notes payable and long-term debt maturing within one year	570	141	7	-	718
Long-term debt classified as current	1,926	-	-	-	1,926
Total current liabilities	3,034	232	46	(24)	3,288
LONG-TERM DEBT	1	38	28	-	67
DEFERRED INCOME TAXES	(36)	196	15	-	175
OTHER LIABILITIES	-	9	-	-	9
STOCKHOLDERS' EQUITY/(DEFICIT):					
Common stock	5	2	5	(7)	5
Capital received in excess of par value	23	1,002	34	(1,036)	23
Deferred currency translation	-	(2)	(6)	-	(8)
Reinvested earnings/(deficit)	(1,900)	71	100	(171)	(1,900)
Total stockholders' equity/(deficit)	(1,872)	1,073	133	(1,214)	(1,880)
Total liabilities and stockholders' equity	1,127	1,548	222	(1,238)	1,659

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
JANUARY 1 THROUGH MAY 6, 1993
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET CASH FLOWS (TO)/FROM OPERATING ACTIVITIES.	$ (90)	$ 76	$ -	$ -	$ (14)
Capital expenditures.	-	(9)	(3)	-	(12)
Net proceeds from asset dispositions. . . .	-	-	-	-	-
NET CASH FLOWS TO INVESTING ACTIVITIES . . .	-	(9)	(3)	-	(12)
Issuance of debt.	-	-	5	-	5
Repayment of debt	-	(140)	(2)	-	(142)
Cash dividends (paid)/received.	2	-	(2)	-	-
(Increase)/decrease in restricted assets. .	44	(12)	-	-	32
Net cash transfers (to)/from Corporate. . .	9	(9)	-	-	-
NET CASH FLOWS (TO)/FROM FINANCING ACTIVITIES.	55	(161)	1	-	(105)
NET DECREASE IN CASH AND CASH EQUIVALENTS. .	(35)	(94)	(2)	-	(131)
Cash and cash equivalents at beginning of period	59	87	34	-	180
Cash and cash equivalents at end of period	24	(7)	32	-	49

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1992
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET CASH FLOWS (TO)/FROM OPERATING ACTIVITIES.	$ (93)	$ 117	$ 66	$ -	$ 90
Capital expenditures.	(1)	(39)	(9)	-	(49)
Net proceeds from asset dispositions. . . .	-	2	4	-	6
NET CASH FLOWS TO INVESTING ACTIVITIES . . .	(1)	(37)	(5)	-	(43)
Issuance of debt.	-	-	57	-	57
Repayment of debt	(4)	(2)	(69)	-	(75)
Cash dividends (paid)/received.	-	56	(56)	-	-
Increase in restricted assets	-	(4)	-	-	(4)
Net cash transfers (to)/from Corporate. . .	121	(121)	-	-	-
NET CASH FLOWS (TO)/FROM FINANCING ACTIVITIES.	117	(71)	(68)	-	(22)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS.	23	9	(7)	-	25
Cash and cash equivalents at beginning of period.	36	78	41	-	155
Cash and cash equivalents at end of period .	59	87	34	-	180

USG CORPORATION
(PREDECESSOR COMPANY)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1991
(DOLLARS IN MILLIONS)

	PARENT COMPANY	COMBINED GUARANTORS	COMBINED NON-GUARANTORS	ELIMINATIONS	CONSOLIDATED
NET CASH FLOWS (TO)/FROM OPERATING ACTIVITIES	$ (216)	$ 211	$ 34	$ -	$ 29
Capital expenditures	(1)	(33)	(15)	-	(49)
Net proceeds from asset dispositions	-	4	1	-	5
Net proceeds from divestiture of Discontinued Operations	80	-	-	-	80
NET CASH FLOWS (TO)/FROM INVESTING ACTIVITIES	79	(29)	(14)	-	36
Issuance of debt	-	-	65	-	65
Repayment of debt	(4)	(1)	(63)	-	(68)
Cash dividends (paid)/received	10	9	(19)	-	-
Increase in restricted assets	-	(84)	-	-	(84)
Net cash transfers (to)/from Corporate	34	(34)	-	-	-
NET CASH FLOWS (TO)/FROM FINANCING ACTIVITIES	40	(110)	(17)	-	(87)
NET CASH FLOWS FROM DISCONTINUED OPERATIONS	-	2	-	-	2
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(97)	74	3	-	(20)
Cash and cash equivalents at beginning of period	133	4	38	-	175
Cash and cash equivalents at end of period	36	78	41	-	155

USG CORPORATION
MANAGEMENT REPORT

Management is responsible for the preparation and integrity of the financial statements and related notes included herein. These statements have been prepared in accordance with generally accepted accounting principles and, of necessity, include some amounts that are based on management's best estimates and judgments.

The Corporation's accounting systems include internal controls designed to provide reasonable assurance of the reliability of its financial records and the proper safeguarding and use of its assets. Such controls are based on established policies and procedures, are implemented by trained personnel, and are monitored through an internal audit program. The Corporation's policies and procedures prescribe that the Corporation and its subsidiaries are to maintain ethical standards and that its business practices are to be consistent with those standards.

The Audit Committee of the Board, consisting solely of outside Directors of the Corporation, maintains an ongoing appraisal, on behalf of the stockholders, of the effectiveness of the independent auditors and management with respect to the preparation of financial statements, the adequacy of internal controls and the Corporation's accounting policies.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board
of Directors of USG Corporation:

We have audited the accompanying consolidated balance sheet of USG Corporation (Predecessor Company), a Delaware corporation, and subsidiaries as of May 6, 1993 and December 31, 1992 and the related consolidated statements of earnings and cash flows for the period of January 1 through May 6, 1993 and for the years ended December 31, 1992 and 1991. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes to Financial Statements - "Financial Restructuring" and "Fresh Start Accounting" notes, on May 6, 1993, the Corporation completed a comprehensive financial restructuring through the implementation of a prepackaged plan of reorganization under Chapter 11 of the United States Bankruptcy Code and applied fresh start accounting. The restructuring resulted in an extraordinary gain of $944 million, primarily from the exchange of debt, and fresh start accounting resulted in a $709 million gain, primarily from revaluing assets and liabilities to reflect reorganization value. These one-time credits to income were recorded as of May 6, 1993 by the Predecessor Company. As such, results of operations through May 6, 1993 (Predecessor Company) are not comparable with results of operations subsequent to that date.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USG Corporation and subsidiaries as of May 6, 1993 and December 31, 1992, and the results of their operations and their cash flows for the period of January 1 through May 6, 1993 and for the years ended December 31, 1992 and 1991, in conformity with generally accepted accounting principles.

As discussed in Notes to Financial Statements - "Litigation" note, in view of the limited insurance funding currently available for property damage cases resulting from the continued resistance by a number of U.S. Gypsum's insurers to providing coverage, the effect of the asbestos litigation on the Corporation will depend upon a variety of factors, including the damages sought in property damage cases that reach trial prior to the completion of the coverage action, U.S. Gypsum's ability to successfully defend or settle such cases, and the resolution of the coverage action. As a result, management is unable to determine whether an adverse outcome in the asbestos litigation will have a material adverse effect on the consolidated results of operations or the consolidated financial position of the Corporation.

As discussed in Notes to Financial Statements - "Cumulative Effect of Changes in Accounting Principles" note, on January 1, 1993 the Corporation changed its method of accounting for postretirement benefits other than pensions and accounting for income taxes.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

USG CORPORATION
(PREDECESSOR COMPANY)
SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
(DOLLARS IN MILLIONS)

CLASSIFICATION	BEGINNING BALANCE	ENDING BALANCE
YEAR ENDED DECEMBER 31, 1991		
Land and mineral deposits	$ 43	$ 41
Buildings and realty improvements	385	402
Machinery and equipment	972	1,000
Total	1,400	1,443
YEAR ENDED DECEMBER 31, 1992		
Land and mineral deposits	41	41
Buildings and realty improvements	402	401
Machinery and equipment	1,000	1,012
Total	1,443	1,454
JANUARY 1 THROUGH MAY 6, 1993		
Land and mineral deposits	41	61
Buildings and realty improvements	401	228
Machinery and equipment	1,012	478
Total	1,454	767

In accordance with fresh start accounting, the Corporation adjusted its property, plant and equipment accounts as of May 6, 1993 to fair market value.

Detailed information regarding additions and deductions other than those associated with fresh start accounting is omitted as neither total additions nor total deductions during each of the periods shown above exceeded 10% of the balance at the end of the period. Excluding fresh start adjustments, total additions were $12 million in the period of January 1 through May 6, 1993 and $49 million in each of the years ended December 31, 1992 and 1991. Total deductions excluding fresh start adjustments were $12 million in the period of January 1 through May 6, 1993 and $38 million and $6 million in the years ended December 31, 1992 and 1991, respectively.

Total deductions include the effect of foreign currency translation which increased total deductions by $1 million in the period of January 1 through May 6, 1993 and by $18 million in the year ended December 31, 1992. In 1991, foreign currency translation adjustments decreased total deductions by $1 million.

Upon retirement of other disposition of property, the applicable cost and accumulated depreciation and depletion are removed from the accounts. Any gains and losses are included in earnings.

USG CORPORATION
(PREDECESSOR COMPANY)
SCHEDULE VI
ACCUMULATED DEPRECIATION AND DEPLETION OF
PROPERTY, PLANT AND EQUIPMENT
(DOLLARS IN MILLIONS)

CLASSIFICATION	BEGINNING BALANCE	ENDING BALANCE
YEAR ENDED DECEMBER 31, 1991		
Land and mineral deposits	$ 7	$ 7
Buildings and realty improvements	141	147
Machinery and equipment	427	470
Total	575	624
YEAR ENDED DECEMBER 31, 1992		
Land and mineral deposits	7	7
Buildings and realty improvements	147	155
Machinery and equipment	470	492
Total	624	654
JANUARY 1 THROUGH MAY 6, 1993		
Land and mineral deposits	7	-
Buildings and realty improvements	155	-
Machinery and equipment	492	-
Total	654	-

In accordance with fresh start accounting, the Corporation adjusted its property, plant and equipment accounts as of May 6, 1993 to fair market value. Consequently, there were no reserves for depreciation and depletion as of that date.

Detailed information regarding additions and deductions other than those associated with fresh start accounting is omitted as neither total additions nor total deductions of property, plant and equipment (see Schedule V) during each of the periods shown above exceeded 10% of the balance of property, plant and equipment at the end of the related period. Total provisions for depreciation and depletion were $20 million in the period of January 1 through May 6, 1993 and $58 million and $57 million in the years ended December 31, 1992 and 1991, respectively. Total deductions, excluding fresh start adjustments, were $12 million in the period of January 1 through May 6, 1993 and $28 million and $8 million in the years ended December 31, 1992 and 1991, respectively.

Total deductions include the effect of foreign currency translation which increased total deductions by $2 million in the period of January 1 through May 6, 1993 and by $10 million in the year ended December 31, 1992 and decreased total deductions by $1 million in the year ended December 31, 1991.

Upon retirement or other disposition of property, the applicable cost and accumulated depreciation and depletion are removed from the accounts. Any gains and losses are included in earnings.

USG CORPORATION
(PREDECESSOR COMPANY)
SCHEDULE VIII
VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN MILLIONS)

ACCOUNT	BEGINNING BALANCE	PROVISION CHARGED TO COSTS AND EXPENSES	RECEIVABLES WRITTEN OFF AND DISCOUNTS ALLOWED	ENDING BALANCE
YEAR ENDED DECEMBER 31, 1991				
Doubtful accounts	$ 6	$ 7	$ (6)	$ 7
Cash discounts.	2	23	(23)	2
YEAR ENDED DECEMBER 31, 1992				
Doubtful accounts	7	7	(5)	9
Cash discounts.	2	24	(24)	2
JANUARY 1 THROUGH MAY 6, 1993				
Doubtful accounts	9	3	(1)	11
Cash discounts.	2	8	(8)	2

USG CORPORATION
(PREDECESSOR COMPANY)
SCHEDULE IX
SHORT-TERM BORROWINGS
(DOLLARS IN MILLIONS)

CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS	ENDING BALANCE	Weighted AVERAGE INTEREST rATE	MAXIMUM AMOUNT OUTSTANDING DURING THE PERIOD	AVERAGE AMOUNT OUTSTANDING DURING THE PERIOD (a)	WEIGHTED AVERAGE INTEREST RATE DURING THE PERIOD (b)
YEAR ENDED DECEMBER 31, 1991					
Notes payable (c)	$ 8	8.5%	$ 19	$ 15	10.5%
Revolving Credit Facility (d)	140	12.8	140	140	13.3
YEAR ENDED DECEMBER 31, 1992					
Notes payable (c)	2	10.6	12	7	8.0
Revolving Credit Facility (d)	140	10.0	140	140	11.2
JANUARY 1 THROUGH MAY 6, 1993					
Notes payable (c)	6	7.3	6	3	8.8
Revolving Credit Facility (d)	-	7.3	140	140	8.7

(a) The average of month-end principal balances.

(b) Computed by dividing average monthly interest expense for the period by the average amount of short-term borrowings outstanding.

(c) Represents borrowings from several foreign banks by USG International and CGC which are generally not subject to the provisions of the Credit Agreement.

(d) The Old Credit Agreement, effective up to May 6, 1993, included a $200 million Revolving Credit Facility, of which $70 million was established as a letter of credit subfacility. Effective May 6, 1993, these amounts were $175 million and $110 million, respectively.

USG CORPORATION
(PREDECESSOR COMPANY)
SCHEDULE X
SUPPLEMENTAL STATEMENT OF EARNINGS INFORMATION
(DOLLARS IN MILLIONS)

The following amounts were charged to costs and expenses:

	JANUARY 1 THROUGH MAY 6, 1993	YEARS ENDED DECEMBER 31, 1992	1991
Maintenance and repairs	$ 34	$ 105	$ 99
Depreciation, depletion and amortization. . .	22	66	68

Maintenance and repairs are recorded as costs or expenses when incurred.

Taxes (excluding payroll and income taxes), rents, royalties and advertising costs are not shown above, as individually they do not exceed one percent of net sales in any of the periods shown.

USG CORPORATION
(PREDECESSOR COMPANY)
SUPPLEMENTAL NOTE ON FINANCIAL INFORMATION FOR
UNITED STATES GYPSUM COMPANY
(A SUBSIDIARY OF USG CORPORATION)

USG Corporation, a holding company, owns several operating subsidiaries, including U.S. Gypsum. On January 1, 1985, all of the issued and outstanding shares of stock of U.S. Gypsum were converted into shares of USG Corporation and the holding company became a joint and several obligor for certain debentures originally issued by U.S. Gypsum. As of May 6, 1993, debentures totaling $41 million were recorded on the holding company's books of account equal to the amount recorded as of December 31, 1992. Financial results for U.S. Gypsum are presented below in accordance with disclosure requirements of the SEC (dollars in millions):

SUMMARY STATEMENT OF EARNINGS

	JANUARY 1 THROUGH MAY 6, 1993	YEARS ENDED DECEMBER 31, 1992	1991
Net sales	$ 297	$ 871	$ 822
Cost and expenses	268	801	759
Operating profit	29	70	63
Interest expense, net	-	2	4
Other income, net	-	(2)	(1)
Corporate charges	52	188	173
Reorganization items	(295)	-	-
Earnings/(loss) before taxes on income and change in accounting principle	272	(118)	(113)
Income tax benefit	(11)	(44)	(43)
Earnings/(loss) before change in accounting principle	283	(74)	(70)
Cumulative effect of change in accounting principle	28	-	-
Net earnings/(loss)	311	(74)	(70)

SUMMARY BALANCE SHEET

	AS OF MAY 6, 1993	AS OF DECEMBER 31, 1992
Current assets	$ 183	$ 192
Property, plant and equipment, net	486	511
Excess Reorganization Value	306	-
Other assets	9	7
Total assets	984	710
Current liabilities	$ 33	$ 32
Other liabilities and obligations	154	193
Stockholder's equity	797	485
Total liabilities and stockholder's equity	984	710

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
WITH RESPECT TO SUPPLEMENTAL NOTE AND FINANCIAL STATEMENT SCHEDULES

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of USG Corporation (Predecessor Company) included in this Form 10-K, and have issued our report thereon dated January 31, 1994. Our report on the consolidated financial statements includes an explanatory paragraph with respect to the asbestos litigation as discussed in Notes to the Financial Statements - "Litigation" note. Our report on the consolidated financial statements also includes an explanatory paragraph with respect to the changes in the methods of accounting for postretirement benefits other than pensions and accounting for income taxes as discussed in Notes to Financial Statements - "Cumulative Effect of Changes in Accounting Principles" note. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental note and financial statement schedules on pages 97 through 102 are the responsibility of the Corporation's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. The supplemental note and financial statement schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 31, 1994

USG CORPORATION
SELECTED QUARTERLY FINANCIAL DATA (A) (UNAUDITED)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

	FIRST QUARTER	APRIL 1 THROUGH MAY 6	MAY 7 THROUGH JUNE 30	THIRD QUARTER	FOURTH QUARTER
1993					
Net sales	$ 436	$ 155	$ 315	$ 514	$ 496
Gross profit	79	30	63	105	95
Operating profit/(loss) (b)	27	11	(1)	6	(4)
Net earnings/(loss) (b) (c)	(279)	1,713	(21)	(25)	(83)
Per common share (d):					
Net loss	-	-	(0.57)	(0.66)	(2.23)
Price range (e) - high	-	-	14	22 5/8	30 1/2
low	-	-	9 5/8	13	20 1/4
EBITDA	46	17	37	65	53

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
1992 (d)					
Net sales	$ 426	$ 441	$ 474	$ 436	$ 1,777
Gross profit	71	81	94	71	317
Operating profit	20	28	39	12	99
Net loss	(50)	(48)	(33)	(60)	(191)
EBITDA	35	43	54	27	159

(a) Due to the Restructuring and implementation of fresh start accounting, the financial statements effective May 7, 1993 for the restructured company are not comparable to financial statements prior to that date for the predecessor company.

(b) Effective May 7, 1993, the Corporation began amortizing its Excess Reorganization Value. This non-cash amortization reduced operating profit and net earnings by $28 million, $43 million and $42 million in the period of May 7 through June 30, the third quarter and the fourth quarter of 1993, respectively.

(c) Net loss in the first quarter of 1993 reflects a one-time after-tax net charge of $150 million for the cumulative effect of changes in accounting principles and a pre-tax reorganization items expense of $69 million. Net earnings in the period of April 1 through May 6, 1993 include a one-time pre-tax reorganization items gain of $778 million and a one-time after-tax extraordinary gain of $944 million, both of which were associated with the Restructuring. Net earnings in the fourth quarter of 1993 include an after-tax extraordinary loss of $21 million related to the Corporation's proposed 1994 financing plan.

(d) Per-share information for periods prior to May 7, 1993 is omitted because, due to the Restructuring and implementation of fresh start accounting, it is not meaningful.

(e) Stock price ranges are for transactions on the New York Stock Exchange (trading symbol USG), which is the principal market for these securities. Stockholders of record as of January 31, 1994: Common - 14,702; Preferred - none.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

A Form 8-K reporting a change of accountants has not been filed within 24 months prior to the date of the most recent financial statements.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

In connection with the consummation of the Prepackaged Plan, the number of persons comprising the Board was increased by five effective May 6, 1993 which, after the May 1993 retirement of one director whose position was eliminated, brought the total Board membership to 15. Of the five New Directors (the "NEW DIRECTORS"), two, Messrs. Crutcher and Lesser, were nominated by a committee representing holders of the Corporation's senior subordinated debentures which were converted into Common Stock under the Prepackaged Plan (each a "SENIOR SUBORDINATED DIRECTOR"); two, Messrs. Fetzer and Zubrow, were nominated by Water Street (each a "WATER STREET DIRECTOR"); and one, Mr. Brown, was nominated by a committee representing holders of the Corporation's junior subordinated debentures which were converted into Common Stock and Warrants to purchase Common Stock under the Prepackaged Plan (a "JUNIOR SUBORDINATED DIRECTOR").

As the respective terms of office of the New Directors expire, the Prepackaged Plan provides that each such New Director will be renominated. If a New Director declines or is unable to accept such nomination, or in the event a New Director resigns during his term or otherwise becomes unable to continue his duties as a director, such New Director or, in the case of a Water Street Director, Water Street, shall recommend his successor to the Committee on Directors of the Board. In the event of the death or incapacity of a New Director, his successor shall be recommended, in the case of a Water Street Director, by Water Street, in the case of a Senior Subordinated Director, by the remaining Senior Subordinated Director, and in the case of a Junior Subordinated Director, by the remaining New Directors. Any such nominee shall be subject to approval by the Board's Committee on Directors and the Board, which approval shall not be unreasonably withheld.

Until June 22, 1997, the time at which the director nomination and selection procedures established by the Prepackaged Plan terminate, no more than two employee directors may serve simultaneously on the Board. An "employee director" is defined for this purpose as any officer or employee of the Corporation or any direct or indirect subsidiary, or any director of any such subsidiary who is not also a director of the Corporation.

DIRECTORS OF THE REGISTRANT

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
Eugene B. Connolly, 61	Chairman and Chief Executive Officer, since January 1994; Chairman, President and Chief Execuive Officer (April 1993-December 1993); Chairman of the Board and Chief Executive Officer (June 1990-March 1993); President and Chief Executive Officer (January 1990-May 1990); Executive Vice President of the Corporation (1987-1989); and President and Chief Executive Officer of USG Interiors, Inc. (March 1987-March 1989). He also was President and Chief Executive Officer of DAP Inc. (July 1988-March 1989). Prior to that, he served as President and Chief Operating Officer of United States Gypsum Company. He joined the Corporation in 1958, was appointed General Manager of the Southern Construction Products Division in 1980, and was elected a Group Vice President, Subsidiaries in 1983 and Group Vice President, International and Industrial in 1984. Mr. Connolly is a director of BPB Industries plc, London, England and a director of U.S. Can Corporation. He is a member of the Advisory Board of the Kellogg Graduate School of Management, Northwestern University; the Dean's Advisory Council, School of Business, Indiana University; and the Governing Council, Good Shepherd Hospital (Barrington, Illinois). Mr. Connolly has been a director of the Corporation since May 1988 and is Chairman of the Board's Executive Committee.	1988 Class 1994
Keith A. Brown, 42	President (since 1987) of Chimera Corporation, a private management holding company. Mr. Brown is a director (since 1988) of Adelphia Incorporated, a director (since 1988) of Global Film & Packaging Corporation, a director (since 1989) of Mansfield Foundry Corporation, and a director (since 1993) of Ashland Castings Corporation. Mr. Brown has been a director of the Corporation since May 1993 and he is a member of the Board's Audit Committee and Public Affairs Committee.	1993 Class 1994
James C. Cotting, 60	Chairman and Chief Executive Officer (since April 1987) of Navistar International Corporation, diesel truck manufacturing and engineering, and financial services. Mr. Cotting is a director of Asarco Incorporated and The Interlake Corporation. He is a director of the National Association of Manufacturers and is a member of the Conference Board. Mr. Cotting has been a director of the Corporation since October 1987, is a member of the Board's Executive Committee and is Chairman of its Finance Committee.	1987 Class 1994
Philip C. Jackson, Jr.,65	Formerly Vice Chairman and a director of Central Bank of the South, Birmingham, Alabama, and of its parent company, Central Bancshares of the South (1980-1989), banking and financial services; presently Adjunct Professor, Birmingham-Southern College, Birmingham, Alabama (since January 1989). Mr. Jackson was a member (April 1990-April 1993) of the Thrift Depositors Protection Oversight Board, Washington, D.C. He is Director, Saul Centers, Inc., Washington D.C. His past affiliations include: member of the Board of Governors of the Federal Reserve System, Washington, D.C., (July 1975-November 1978) and Vice President and a director of the Jackson Company (mortgage banking operations) of Birmingham, Alabama (October 1949-June 1975). Mr. Jackson is Trustee, Birmingham - Southern College, Birmingham, Alabama. He has been a director of the Corporation since May 1979, is a member of the Board's Executive Committee and is Chairman of its Public Affairs Committee.	1979 Class 1994

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
John B. Schwemm, 59	Retired Chairman (1983-1989) and Chief Executive Officer (1983-1988) of R.R. Donnelley & Sons Company, commercial and financial printing and publishing. He joined that Company in 1965, prior to which he was with the law firm of Sidley & Austin. Mr. Schwemm was appointed General Counsel in 1969 and elected Group Vice President, Book Group in 1976. He serves as a director of Walgreen Company and William Blair Mutual Funds; he also serves as a Trustee of Northwestern University. Mr. Schwemm has been a director of the Corporation since May 1988 and is a member of the Board's Audit Committee and Compensation and Organization Committee.	1988 Class 1994
W.H. Clark, 61	Chairman of the Board (since 1984), Chief Executive Officer (since 1982) and President (1984-1990) of Nalco Chemical Company of Naperville, Illinois, specialized chemicals and technology. He joined the company in 1960 and served in various capacities until his appointment as a General Manager in 1978. Mr. Clark was elected Group Vice President and President, Industrial Division (both in 1978); director in 1980; and Executive Vice President, Domestic Operations, in 1982. He is a director of Northern Trust Corporation and The Northern Trust Bank, Nicor Corporation, Bethlehem Steel Corporation, James River Corporation and Northern Illinois Gas Company. Mr. Clark has been a director of the Corporation since August 1985, is a member of the Board's Executive Committee and Compensation and Organization Committee, and is Chairman of its Committee on Directors and Audit Committee.	1985 Class 1995
Lawrence M. Crutcher, 51	Managing Director (since 1990) of Veronis, Suhler & Associates, investment bankers. From 1967 to 1989, Mr. Crutcher was with Time Inc. He was President of Book-of-the-Month Club (1985-1989); Vice President for Financial Planning (1984); Vice President, Magazines (1981-1983); and Vice President, Circulation (1976-1980). Mr. Crutcher has been a director of the Corporation since May 1993; he is a member of the Board's Committee on Directors and Public Affairs Committee.	1993 Class 1995
Anthony J. Falvo, Jr., 63	Vice Chairman, since April 1993; President (June 1990-March 1993) and Chief Operating Officer (January 1990-March 1993); Executive Vice President of the Corporation (1988-1989). He previously served as President and Chief Executive Officer of United States Gypsum Company (June 1988-March 1989), President and Chief Executive Officer of Masonite Corporation (April 1986-June 1988), and President and Chief Operating Officer of Masonite Corporation (March 1985-April 1986). He joined the Corporation in 1955 and was elected Vice President, Marketing (1982), and Group Vice President, Consumer Products (1984). He previously served as President, L&W Supply Corporation (1976) and Director, Group Staff Services (1980). He serves as a director of Urban Gateways and is on the Development Council of Good Shepherd Hospital (Barrington, Illinois). Mr. Falvo has been a director of the Corporation since May 1988 and is a member of the Board's Executive Committee.	1988 Class 1995

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
Wade Fetzer III, 56	Partner (since 1986) of Goldman, Sachs & Co., investment bankers. Mr. Fetzer is a member of the Board of Trustees and the Executive Committee of Rush-Presbyterian St. Luke's Medical Center, a Trustee of Northwestern University and the University of Wisconsin Foundation, and a member of the Board of United Charities of Chicago. Mr. Fetzer has been a director of the Corporation since May 1993; he is a member of the Board's Compensation and Organization Committee, Public Affairs Committee and Committee on Directors.	1993 Class 1995
Judith A. Sprieser, 40	President and Chief Executive Officer (June 1993-present) of Sara Lee Bakery, North America, a division of Sara Lee Corporation, packaged food and consumer products. Ms. Sprieser has been with Sara Lee Corporation since 1987 and served as Assistant Treasurer, Corporate Finance (1987-1990) and Corporate Financial Officer (1990-1993) of North American Bakery, Sara Lee Bakery. She was also Vice President, Sara Lee Food Group (January 1993-June 1993). She has been a director of the Corporation since February 1994; she is a member of the Board's Audit Committee and Committee on Directors.	1994 Class 1995
Robert L. Barnett, 53	Formerly Vice Chairman of Ameritech (1991-1992) and President of the Ameritech Bell Group (1989-1992), communications and information services, which includes eight wholly-owned subsidiaries of American Information Technologies Corporation (Ameritech) and the Bell Group staff. Mr. Barnett also served as President of Ameritech Enterprise Group (1987-1989), President and Chief Executive Officer of Wisconsin Bell Company (1985-1987), Vice President of Operations for Wisconsin Bell Company (1984-1985), President of Ameritech Mobile Communications Company (1983-1984), and in various other capacities with the Bell System, which he joined in 1964. He is a director of Johnson Controls, Inc. and is a member of the Advisory Council of the Robert R. McCormick School of Engineering and Applied Science at Northwestern University and of the University's Electrical Engineering and Computer Science Industrial Advisory Board. He is affiliated with the Institute of Electrical and Electronics Engineers. Mr. Barnett has been a director of the Corporation since May 1990. He is a member of the Board's Compensation and Organization Committee, Audit Committee and Committee on Directors.	1990 Class 1996

NAME AND AGE	PRINCIPAL OCCUPATION, FIVE YEAR EMPLOYMENT HISTORY AND OTHER DIRECTORSHIPS	YEAR FIRST BECAME DIRECTOR AND CLASS
David W. Fox, 62	Chairman and Chief Executive Officer (since 1990) of Northern Trust Corporation and The Northern Trust Company, banking and financial services. He has been with The Northern Trust Company since 1955 and served as Senior Vice President (1974-1978), Executive Vice President (1978-1981), Vice Chairman (1981-1987), and President (1987-1993). Mr. Fox is a director of The Federal Reserve Bank of Chicago, Northern Trust of Florida Corp., Banque Rivaud (Paris, France), INROADS/Chicago and the Chicago Central Area Committee. He is a Governor of the Chicago Stock Exchange and a trustee of Northwestern Memorial Hospital, the Adler Planetarium, The Orchestral Association, and DePaul University. Mr. Fox has been a director of the Corporation since May 1987, is a member of the Board's Executive Committee, Finance Committee and Committee on Directors, and is Chairman of its Compensation and Organization Committee.	1987 Class 1996
Marvin E. Lesser, 52	Managing Partner (since 1989) of Cilluffo Associates, L.P., a private investment partnership. Managing Partner (since 1993) of Sigma Partners, L.P., a private investment partnership. Mr. Lesser has also been a private consultant since 1992. He was Senior Vice President (1986-1988) of Bessemer Securities Corporation, a private investment company and a director (1989-1991) of Amdura Corporation. Mr. Lesser is Chairman of the Seacoast Area Chapter (New Hampshire) of the American Red Cross. He has been a director of the Corporation since May 1993; he is a member of the Board's Finance Committee, Committee on Directors and Public Affairs Committee.	1993 Class 1996
Alan G. Turner, 60	Chairman and Chief Executive of BPB Industries plc, London, England, a manufacturer of gypsum products and other building materials and paper and packaging products. Prior to September 1993, Mr. Turner was Chairman (November 1992-August 1993), Chairman and Chief Executive (1985-1992), Chief Executive (1978-1985), Deputy Chief Executive (1974-1978), and served in various other capacities since his association with BPB Industries plc in 1962. He has been a director of that company since 1972. Mr. Turner is also a director and Vice President of the National Council of Building Material Producers Limited, United Kingdom; director of The Manufacturers Life Insurance Company, Toronto; director of Jaguar Limited, United Kingdom; director of RSA Adelphi Enterprises Ltd.; and a member of the European Advisory Board of Boral Limited, Australia. He is an honorary president of Eurogypsum; a member of the Council and Treasurer of the Royal Society for the Encouragement of Arts, Manufactures & Commerce, United Kingdom; and a member of the Institution of Chemical Engineers. Mr. Turner has been a director of the Corporation since May 1984 and is a member of the Board's Audit Committee and Committee on Directors. (BPB Industries plc, London, England, beneficially owns 1,000 shares of Common Stock of the Corporation).	1984 Class 1996
Barry L. Zubrow, 41	Partner (since 1988) of Goldman, Sachs & Co., investment bankers. Mr. Zubrow is a member of the Board of Managers of Haverford College. He has been a director of the Corporation since May 1993 and is a member of the Board's Finance Committee and Committee on Directors.	1993 Class 1996

On February 9, 1994, William C. Foote was elected a director of the Corporation (in the class with a term expiring in 1995) to become effective March 1, 1994 following the retirement of Mr. Falvo. See "Executive Officers of the Registrant" below for Mr. Foote's age, present position and employment within the past five years. He will be a member of the Executive Committee.

EXECUTIVE OFFICERS OF THE REGISTRANT (WHO ARE NOT DIRECTORS)

NAME, AGE AND PRESENT POSITION	PRIOR BUSINESS EXPERIENCE IN PAST FIVE YEARS	HAS HELD PRESENT POSITION SINCE
William C. Foote, 42 President and Chief Operating Officer	Senior Vice President, USG Interiors, Inc. to March 1989; Senior Vice President and General Manager, Central Construction Products Region, United States Gypsum Company to November 1990; Executive Vice President and Chief Operating Officer, L&W Supply Corporation to September 1991; President and Chief Executive Officer, L&W Supply Corporation from September 1991 through December 1993; President and Chief Executive Officer, USG Interiors, Inc. from January 1993 through December 1993.	January 1994
Arthur G. Leisten, 52 Senior Vice President and General Counsel	Vice President and General Counsel to January 1990; Senior Vice President and General Counsel to March 1993; Senior Vice President, General Counsel and Secretary to February 1994.	February 1994
P. Jack O'Bryan, 58 Senior Vice President and Chief Technology Officer	Senior Vice President and General Manager, Central Construction Products Region, United States Gypsum Company to March 1989; President and Chief Executive Officer, United States Gypsum Company to January 1993.	January 1993
Harold E. Pendexter, Jr., 59 Senior Vice President and Chief Administrative Officer	Vice President, Human Resources and Administration to January 1990; Senior Vice President, Human Resources and Administration to January 1991.	January 1991
Raymond T. Belz, 53 Vice President and Controller, USG Corporation; Vice President Financial Services, United States Gypsum Company	Vice President Finance, United States Gypsum Company to December 1990; Vice President Financial Services, United States Gypsum Company since January 1991.	January 1994
Brian W. Burrows, 54 Vice President, Research and Development	Same position.	March 1987
Richard H. Fleming, 46 Vice President and Chief Financial Officer	Vice President Finance and Chief Financial Officer, Masonite Corporation to February 1989; Director, Corporate Finance, USG Corporation to January 1991; Vice President and Treasurer to December 1993.	January 1994
Matthew P. Gonring, 38 Vice President, Corporate Communications	Director, Public Relations to January 1991; Director, Corporate Communications to March 1993.	March 1993

NAME, AGE AND PRESENT POSITION	PRIOR BUSINESS EXPERIENCE IN PAST FIVE YEARS	HAS HELD PRESENT POSITION SINCE
J. Bradford James, 47 Vice President; President and Chief Executive Officer, USG Interiors, Inc.	Vice President, Finance & Administration, USG Interiors, Inc. to March 1989; Director, Corporate Strategic Planning, USG Corporation and Vice President, Finance & Administration, USG Interiors, Inc. to January 1990; Vice President, Financial and Strategic Planning, USG Corporation to January 1991; Vice President and Chief Financial Officer, USG Corporation to March 1993; Senior Vice President and Chief Financial Officer to December 1993.	January 1994
John E. Malone, 50 Vice President and Treasurer, USG Corporation; Vice President - Finance, USG International, Ltd.	Vice President and Controller, USG Corporation to December 1993; Vice President - Finance, USG International, Ltd. since March 1993.	January 1994
James S. Phillips, 64 Vice President, Corporate Accounts	Vice President, National Accounts, United States Gypsum Company to March 1989; Vice President National Accounts, USG Corporation to December 1990.	December 1990
Donald E. Roller, 56 Vice President; President and Chief Executive Officer, United States Gypsum Company	Executive Vice President and Chief Operating Officer, USG Interiors, Inc. to March 1989; President and Chief Executive Officer, USG Interiors Inc. to January 1993; President and Chief Executive Officer, United States Gypsum Company since January 1993.	January 1994
Stanley R. Sak, 53 Vice President; President and Chief Executive Officer, USG International, Ltd.	Group Vice President, Ceiling Group, USG Interiors, Inc. to March 1989; Executive Vice President, USG Interiors, Inc. to October 1990; President and Chief Executive Officer, USG International, Ltd. since October 1990.	January 1994
S. Gary Snodgrass, 42 Vice President, Human Resources - Operations	Vice President Human Resources, USG Interiors, Inc. to December 1989; Director, Corporate Human Resources Planning, USG Corporation and Vice President, Human Resources, USG Interiors, Inc. to November 1990; Director, Human Resources, USG Corporation to September 1992; Vice President, Management Resources and Employee Relations to December 1993.	January 1994
Dean H. Goossen, 46 Corporate Secretary	General Counsel and Secretary, Arthur J. Gallagher & Co. to 1989; Vice President, General Counsel and Secretary, Xerox Financial Services Life Insurance Company to February 1993; Assistant Secretary, USG Corporation to February 1994.	February 1994

NAME, AGE AND PRESENT POSITION	PRIOR BUSINESS EXPERIENCE IN PAST FIVE YEARS	HAS HELD PRESENT POSITION SINCE
Frank R. Wall, 61 President and Chief Executive Officer, L&W Supply Corporation	Senior Vice President and General Manager, Western Construction Products Region, United States Gypsum Company to January 1990; Senior Vice President, Operating Services, United States Gypsum Company to April 1993; Executive Vice President and Chief Operating Officer, L&W Supply Corporation to December 1993.	January 1994

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION AND BENEFITS

The discussion that follows has been prepared based on the actual compensation paid and benefits provided by the Corporation to the five most highly compensated executive officers of the Corporation (collectively, the "NAMED EXECUTIVES"), for services performed during 1993 and the other periods indicated. This historical data is not necessarily indicative of the compensation and benefits that may be provided to such persons in the future.

In general, the Prepackaged Plan provided for the continuation by the Corporation of the existing employment, compensation and benefit arrangements. The Prepackaged Plan resulted in a substantial reduction on May 6, 1993 in the amounts otherwise potentially payable to the Named Executives in 1994 under the Corporation's three-year Incentive Recovery Program (the "IRP") and the concurrent cash settlement of such reduced awards. Although no further awards will be made to the Named Executives under the IRP, the Named Executives were eligible for incentive awards under the Corporation's 1993 Annual Management Incentive Program.

SUMMARY COMPENSATION TABLE

The following table summarizes for the years indicated the compensation awarded to, earned by or paid to the Named Executives for services rendered in all capacities to the Corporation and its subsidiaries.

		ANNUAL COMPENSATION			LONG TERM COMPENSATION — AWARDS		LONG TERM COMPENSATION — PAYOUTS	
NAME AND PRINCIPAL POSITION (AS OF JANUARY 1, 1994)	YEAR	SALARY ($)	BONUS ($)(A)	OTHER ANNUAL COMPEN-SATION ($)(B)	RESTRICTED STOCK AWARDS ($)(C)	OPTIONS/ SARS (#)(D)	LTIP PAYOUTS ($)(E)	ALL OTHER COMPEN-SATION ($)(F)
Eugene B. Connolly	1993	$ 612,500	$ 717,624	$ 52,952	$ -	250,000	$1,164,005	$ 42,426
Chairman of the Board	1992	555,000	-	-	-	-	-	530
and CEO	1991	475,000	-	-	213,750	-	-	530
Anthony J. Falvo, Jr.	1993	473,750	543,120	-	-	50,000	800,168	32,869
Vice Chairman	1992	432,500	-	-	-	-	-	530
	1991	376,667	-	-	142,500	-	-	530
P. Jack O'Bryan	1993	280,000	255,096	-	-	100,000	470,448	17,739
Senior Vice President	1992	256,000	-	-	-	-	-	530
and Chief Technology Officer	1991	236,750	-	-	83,125	-	-	530
Donald E. Roller	1993	280,000	255,096	-	-	100,000	446,614	17,574
Vice President; President	1992	250,000	-	-	-	-	-	530
and CEO, United States Gypsum Company	1991	233,333	-	-	83,125	-	-	530
Harold E. Pendexter, Jr.	1993	269,583	250,614	-	-	100,000	408,524	17,739
Senior Vice President	1992	242,500	-	-	-	-	-	530
and Chief Administrative Officer	1991	210,000	-	-	83,125	-	-	530

(a) Reflects payments arising from cash award opportunities under the Corporation's 1993 Annual Management Incentive Program which were afforded to the Named Executives upon termination of the IRP referred to in footnote (e). The amounts shown are taken into account for purposes of computing benefits under the Corporation's retirement plans. None of the Named Executives received an annual cash bonus for 1992 or 1991.

(b) Mr. Connolly's Other Annual Compensation for 1993 included $14,100 in automobile allowance and $16,724 as the estimated cost of equivalent life insurance provided by the Corporation's executive death benefit plan; no other Named Executive had perquisites and other personal benefits aggregating the lesser of either $50,000 or 10 percent of salary and bonus for 1993, and none of the Named Executives had such perquisites or other personal benefits for 1992 or 1991.

(c) The amounts shown reflect the value (determined by the closing price of the Corporation's Common Stock on the New York Stock Exchange on the date of grant) of grants of restricted stock awards made in 1991 under the Management Performance Plan. The shares subject to some such awards were originally scheduled to vest no later than the tenth anniversary of the applicable date of grant, subject to acceleration upon the attainment of specified performance objectives, and the awards included the right to receive dividends paid to stockholders. None of the restricted stock awards were originally scheduled to vest in less than three years from the date of grant. No dividends were paid by the Corporation in 1991, 1992, or 1993. The shares subject to such awards were reduced proportionally as a result of the one for 50 reverse stock split effected by the Prepackaged Plan. Although none of such shares had vested as of December 31, 1993, the Compensation and Organization Committees of the Board of Directors determined in November 1993 to accelerate the vesting of all outstanding restricted stock awards, including the awards held by the Named Executive in the amounts indicated in the next sentence, to February 14, 1994. As of December 31, 1993, the aggregate number of restricted shares held by each of the Named Executives and the aggregate value thereof, determined with reference to closing prices on such date, were as follows: Mr. Connolly, 3,852 shares, $112,671; Mr. Falvo, 2,628 shares, $76,869; Mr. O'Bryan, 1,528 shares, $44,694; Mr. Roller, 1,480 shares, $43,290; and Mr. Pendexter, 1,329 shares, $38,873.

(d) Option awards in 1993 were granted effective June 1, 1993. No option awards were granted to the Named Executives in 1992 or 1991 and all option awards outstanding as of May 6, 1993 were cancelled without consideration by the terms of the Prepackaged Plan.

(e) Reflects cash settlements of reduced awards, otherwise potentially payable in 1994, in connection with termination of the IRP pursuant to and concurrently with the effectiveness of the Prepackaged Plan. The amounts shown are taken into account for purposes of computing benefits under the Corporation's retirement plans. None of the Named Executives received long-term incentive plan payouts in 1992 or 1991.

(f) All Other Compensation for the Named Executives for each year consisted solely of matching contributions from the Corporation to defined contribution plans.

OPTION/SAR GRANTS IN LAST FISCAL YEAR (A)

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (C)	
NAME	SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)(B)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN 1993	EXERCISE PRICE ($/SH)	EXPIRATION DATE	5% ($)	10% ($)
Eugene B. Connolly	250,000	14.9	$ 10.3125	6/1/03	$1,618,375	$4,109,375
Anthony J. Falvo, Jr.	50,000	3.0	10.3125	6/1/03	323,675	821,875
P.Jack O'Bryan	100,000	6.0	10.3125	6/1/03	647,350	1,643,750
Donald E. Roller	100,000	6.0	10.3125	6/1/03	647,350	1,643,750
Harold E. Pendexter, Jr.	100,000	6.0	10.3125	6/1/03	647,350	1,643,750

(a) No SARs were granted in 1993.

(b) Pursuant to the Prepackaged Plan, all outstanding option awards as of May 6, 1993, were cancelled without consideration. As permitted by the Prepackaged Plan, 2,788,350 shares of Common Stock were reserved for future issuance in conjunction with stock options. Options for 1,673,000 shares of Common Stock were granted on June 1, 1993 to 45 individuals, including the Named Executives, at the exercise price of $10.3125 per share, which was the average of the high and low sales prices for a share of Common Stock as reported on the NYSE Composite Tape for such date. These options become exercisable at the rate of one-third of the aggregate grant on each of the first three anniversaries of the date of the grant (except for the option grant with respect to 50,000 shares to Mr. Falvo, which is expected to become exercisable in 1994 in conjunction with his anticipated retirement) and expire on the tenth anniversary of the date of grant except in the case of retirement, death or disability in which case they expire on the earlier of the fifth anniversary of such event or the expiration of the original option term.

(c) Assumes appreciation in value from the date of grant to the end of the option term, at the indicated rate.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

			NUMBER OF UNEXERCISED OPTIONS/SARS AT FISCAL YEAR-END (A)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FISCAL YEAR-END (A)	
NAME	NUMBER OF SHARES UNDERLYING OPTIONS EXERCISED (#)	VALUE REALIZED ($)	EXERCISABLE (#)	UNEXERCISABLE (#)	EXERCISABLE ($)	UNEXERCISABLE ($)
Eugene B. Connolly	0	$ 0	0	250,000	$ 0	$4,718,750
Anthony J. Falvo, Jr.	0	0	0	50,000	0	943,750
P. Jack O'Bryan	0	0	0	100,000	0	1,887,500
Donald E. Roller	0	0	0	100,000	0	1,887,500
Harold E. Pendexter, Jr.	0	0	0	100,000	0	1,887,500

(a) No SARs were outstanding as of December 31, 1993.

EMPLOYMENT AGREEMENTS

In order to assure continued availability of services of the Named Executives, the Corporation (or, in the case of Mr. Roller, U.S. Gypsum) entered into employment agreements (the "EMPLOYMENT AGREEMENTS") with the Named Executives in 1993 which superseded substantially identical agreements entered into on various dates prior to 1993. The Employment Agreements, which do not by their terms provide for renewal or extension, terminate on December 31, 1996.

The Employment Agreements provide for minimum annual salaries at the then current rate to be paid at normal pay periods and at normal intervals to Messrs. Connolly ($585,000), Falvo ($455,000), O'Bryan ($280,000), Roller ($280,000), and Pendexter ($255,000), with the minimum annual salaries deemed increased concurrently with salary increases authorized by the Compensation and Organization Committee of the Board of Directors. The Employment Agreements require that each Named Executive devote his full attention and best efforts during the term of such agreement to the performance of assigned duties. If a Named Executive is discharged without cause by the Corporation during the term of his Employment Agreement, he may elect to be treated as a continuing employee under such agreement, with salary continuing at the minimum rate specified in such agreement or at the rate in effect at the time of discharge, if greater, for the balance of the term of the Employment Agreement or for a period of two years, whichever is greater. In the event of any such salary continuation, certain benefits will be continued at corresponding levels and for the same period of time. If a Named Executive becomes disabled during the term of his Employment Agreement, his compensation continues for the unexpired term of the Employment Agreement at the rate in effect at the inception of the disability. In the event of a Named Executive's death during the term of his Employment Agreement, one-half of the full rate of compensation in effect at the time of his death will be paid to his beneficiary for the remainder of the unexpired term of the Employment Agreement.

Each of the Named Executives has undertaken, during the term of his Employment Agreement and for a period of three years thereafter, not to participate, directly or indirectly, in any enterprise which competes with the Corporation or any of its subsidiaries in any line of products in any region of the United States. Each Named Executive has also agreed not to, at any time, use for his benefit or the benefit of others or disclose to others any of the Corporation's confidential information except as required by the performance of his duties under his Employment Agreement.

TERMINATION COMPENSATION AGREEMENTS

The Corporation is a party to termination compensation agreements with the Named Executives, each of such agreement which will terminate at the earlier of the close of business on December 31, 1995, or upon the Named Executive attaining age 65.

The agreements provide certain benefits in the event of a "change in control" and termination of employment within three years thereafter or prior to the Named Executive attaining age 65, whichever is earlier, but only if such termination occurs under one of several sets of identified circumstances. Such circumstances include termination by the Corporation other than for "cause" and termination by the Named Executive for "good reason". Each "change in control" will begin a new three-year period for the foregoing purposes. For purposes of the agreements: (i) a "change in control" is deemed to have occurred, in general, if any person or group of persons acquires beneficial ownership of 20% or more of the combined voting power of the Corporation's then outstanding voting securities, if there is a change in a majority of the members of the Board within a two year period and in certain other events; (ii) the term "cause" is defined as, in general, the willful and continued failure by the Named Executive substantially to perform his duties after a demand for substantial performance has been delivered or the willful engaging of the Named Executive in misconduct which is materially injurious to the Corporation; and (iii) "good reason" for termination by a Named Executive means, in general, termination subsequent to a change in control based on specified changes in the Named Executive's duties, responsibilities, titles, offices or office location, compensation levels and benefit levels or participation.

The benefits include payment of full base salary through the date of termination at the rate in effect at the time of notice of termination, payment of any unpaid bonus for a past fiscal year and pro rata payment of bonus for the then current fiscal year, and continuation through the date of termination of all stock ownership, purchase and option plans and insurance and other benefit plans. In the event of a termination giving rise to benefits under the agreements, the applicable Named Executive will be entitled to payment of a lump sum amount equal to 2.99 times the sum of (i) his then annual base salary, computed at 12 times his then current monthly pay and (ii) his full year position par bonus for the then current fiscal year, subject to all applicable federal and state income taxes, together with payment of a gross-up amount to provide for applicable federal excise taxes in the event such lump sum and all other benefits payable to the Named Executive constitute an "excess parachute payment" under the Internal Revenue Code. The Corporation is required to maintain in full force and effect until the earlier of (i) two years after the date of any termination which gives rise to benefits under any of the agreements and (ii) commencement by the Named Executive of full-time employment with a new employer, all insurance plans and arrangements in which the Named Executive was entitled to participate immediately prior to his termination in a manner which would give rise to benefits under his agreement, provided that if such participation is barred, the Corporation will be obligated to provide substantially similar benefits. In the event of any termination giving rise to benefits under the agreements, the Corporation is required to credit the applicable Named Executive with three years of benefit and credited service in addition to the total number of years of benefit and credited service the Named Executive accrued under the USG Corporation Retirement Plan. See "Retirement Plans" below. If the Named Executive has a total of less than five years of credited service following such crediting, he nonetheless will be treated as if he were fully vested under that Plan, but with benefits calculated solely on the basis of such total benefit service.

The Corporation is obligated to pay to each Named Executive all legal fees and expenses incurred by him as a result of a termination which gives rise to benefits under his agreement, including all fees and expenses incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided under such agreement. No amounts are payable under such agreements if the Named Executive's employment is terminated by the Corporation for "cause" or if the Named Executive terminates his employment and "good reason" does not exist.

Although Water Street's ownership of more than 20% of the Corporation's voting securities as a result of the Restructuring constituted a "change in control" under the agreements, each of the Named Executives agreed to waive this occurrence. Such waivers do not constitute a waiver of any other occurrence of a change in control.

The Corporation has established a so-called "rabbi trust" to provide a source of payment for benefits payable under such agreements. Immediately upon any change in control, the Corporation may deposit with the trustee under such trust an amount reasonably estimated to be potentially payable under all such agreements, taking into account any previous deposits. The Corporation did not make any such deposit to the trust as a result of Water Street's ownership. In the event that the assets of such trust in fact prove insufficient to provide for benefits payable under all such agreements, the shortfall would be paid directly by the Corporation from its general assets.

RETIREMENT PLANS

The following table shows the annual pension benefits on a straight-life annuity basis for retirement at normal retirement age under the terms of the Corporation's contributory retirement plan (the "RETIREMENT PLAN"), before the applicable offset of one-half of the primary social security benefits at time of retirement. The table has been prepared for various compensation classifications and representative years of credited service under the Plan. Each participating employee contributes towards the cost of his or her retirement benefit. Retirement benefits are based on the average rate of annual covered compensation during the three consecutive years of highest annual compensation in the ten years of employment immediately preceding retirement. Participants become fully vested after five years of continuous credited service.

RETIREMENT PLAN TABLE

COVERED COMPENSATION	Years of Credited Service				
	20	25	30	35	40
$ 200,000	$ 64,000	$ 80,000	$ 96,000	$ 112,000	$ 128,000
400,000	128,000	160,000	192,000	224,000	256,000
600,000	192,000	240,000	288,000	336,000	384,000
800,000	256,000	320,000	384,000	448,000	512,000
1,000,000	320,000	400,000	480,000	560,000	640,000
1,200,000	384,000	480,000	576,000	672,000	768,000

The Named Executives participate in the Retirement Plan. The Named Executives' full years of continuous credited service at December 31, 1993 were as follows: Mr. Connolly, 35; Mr. Falvo, 38; Mr. O'Bryan, 35; Mr. Roller, 33; and Mr. Pendexter, 36. Compensation under the Retirement Plan includes salary and incentive compensation (bonus and IRP payments) for the year in which payments are made.

Pursuant to a supplemental retirement plan, the Corporation has undertaken to pay any retirement benefits otherwise payable to certain individuals, including the Named Executives, under the terms of the Corporation's contributory Retirement Plan but for provisions of the Internal Revenue Code limiting amounts payable under tax-qualified retirement plans in certain circumstances. The Corporation has established a so-called "rabbi trust" to provide a source of payment for benefits under this supplemental plan. Amounts are deposited in this trust from time to time to provide a source of payments to participants as they retire as well as for periodic payments to certain other retirees. In addition, the Corporation has authorized establishment by certain individuals, including the Named Executives, of special retirement accounts with independent financial institutions as an additional means of funding the Corporation's obligations to make such supplemental payments.

DIRECTOR COMPENSATION

Directors who are not employees of the Corporation are currently entitled to receive a retainer of $6,000 per quarter plus a fee of $900 for each Board or Board committee meeting attended, together with reimbursement for out-of-pocket expenses incurred in connection with attendance at meetings. A non-employee director serving as chairman of a committee is entitled to receive an additional retainer of $1,000 per quarter for each such chairmanship. Additional fees for pre-meeting consultations may be paid as applicable to non-employee directors, the amount of such fees to bear a reasonable relationship to the regular meeting fee of $900 and the customary length of a meeting of the Board committee involved. No director of the Corporation has received any compensation of any kind for serving as a director while also serving as an officer or other employee of the Corporation or any of its subsidiaries.

In the past, the Corporation has entered into consulting agreements with retiring non-employee directors who had specified minimum periods of service on the Board. Those agreements continued the annualized retainer which was in effect in each instance at the time of retirement from the Board in return for an undertaking to serve in an advisory capacity and to refrain from any activity in conflict or in competition with the Corporation. The Board has determined to continue to offer such agreements on a case-by-case basis but also has determined to limit any such agreement to a term not to exceed five years.

1994 Stock Option Grants

Options for 933,000 shares of Common Stock were granted on February 9, 1994 to 76 officers and key managers, none of whom is a Named Executive, at the exercise price of $32.5625 per share, which was the average of the high and low sales prices for a share of Common Stock as reported on the NYSE Composite Tape for such date. These options become exercisable at the rate of one-third of the aggregate grant on each of the first three anniversaries of the date of grant and expire on the tenth anniversary of the date of grant, except in the case of retirement, death or disability, in which case they expire on the earlier of the fifth anniversary of such event or the expiration of the original option term.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

5% HOLDERS OF COMMON STOCK

The following persons are known by the Corporation to be a beneficial owner of more than five percent of the outstanding Common Stock:

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	Percent of Class
Water Street Corporate Recovery Fund I, L.P. (a) 85 Broad Street New York, NY 10004	16,105,840	43%
FMR Corp. (b) 82 Devonshire Street Boston, MA 02109	1,922,400	5%

(a) Water Street owns directly 15,893,231 shares of Common Stock and 116,070 Warrants that are currently exercisable. Goldman, Sachs & Co. owns directly 96,539 shares of Common Stock and, as the general partner of Water Street, may be deemed to be the beneficial owner of the 15,893,231 shares of Common Stock and 116,070 Warrants owned directly by Water Street. Such shares and Warrants may also be deemed to be beneficially owned by The Goldman Sachs Group, L.P., one of the general partners of Goldman, Sachs & Co. Goldman, Sachs & Co. and the Goldman Sachs Group, L.P. disclaim beneficial ownership of shares and Warrants held by Water Street to the extent partnership interests in Water Street are held by persons other than Goldman, Sachs & Co., the Goldman Sachs Group, L.P. and their affiliates.

(b) Based solely on a Schedule 13G filed with the SEC and certain information received by the Corporation from Fidelity Management and Research Company, as of February 23, 1994, FMR Corp., a parent holding company, had sole voting and investment power with respect to 33,600 shares, and sole investment power with respect to 1,888,800 shares. Fidelity Management & Research Company, an investment advisor, and Fidelity Management Trust Company, a bank, both wholly-owned subsidiaries of FMR Corp., through certain funds or accounts managed or advised by them, beneficially owned 1,888,800 and 33,600 shares, respectively. Edward C. Johnson, III, Chairman of FMR Corp. owns 34% of the outstanding voting common stock of FMR Corp. Various Johnson family members and trusts for the benefit of Johnson family members own FMR Corp. voting common stock. These Johnson family members, through their ownership of voting common stock, form a controlling group with respect to FMR Corp.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information as of January 1, 1994 regarding the beneficial ownership of Common Stock by each current director and Named Executive and by all current directors and executive officers of the Corporation as a group (31 persons). Such information is derived from the filings made with the SEC by such persons under Section 16(a) of the Exchange Act. The totals include any shares allocated to the accounts of those individuals through December 31, 1993 under the USG Corporation Investment Plan.

NAME	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS (A)
Robert L. Barnett	20	
Keith A. Brown	119,256	
W. H. Clark	2,248	
Eugene B. Connolly.	7,789	
James C. Cotting.	20	
Lawrence M. Crutcher	1,800	
Anthony J. Falvo, Jr.	6,852	
Wade Fetzer III.	(b)	
David W. Fox.	112	
Philip C. Jackson, Jr..	1,963	
Marvin E. Lesser	500	
P. Jack O'Bryan	5,029	
Harold E. Pendexter, Jr	5,085	
Donald E. Roller.	4,970	
John B. Schwemm	154	
Judith A. Sprieser.	0	
Alan G. Turner.	0	
Barry L. Zubrow	(b)	
All current directors, and present executive officers as a group (31 persons), including those current directors and Named Executives named above.	172,080	

(a) Total beneficial ownership of 172,080 shares of Common Stock by members of the group identified above represents approximately 0.5% of the total outstanding shares of Common Stock, excluding the shares that Messrs. Fetzer and Zubrow may be deemed to beneficially own as described in the following note. No director had a right to acquire beneficial ownership of any shares of Common Stock within 60 days after January 1, 1994 except as described as follows and in note (b)below: Warrants that are currently exercisable are as follows: Mr. Brown, 16,458 Warrants; Mr. Connolly, 1,003 Warrants; Mr. Falvo, 1,003 Warrants; Mr. Fox, 19 Warrants; Mr. Jackson, 879 Warrants; Mr. O'Bryan, 831; Mr. Pendexter, 619; Mr. Roller, 975; Mr. Schwemm, 25 Warrants. Warrants held by directors and executive officers as a group totaled 139,140. The above table also excludes options to purchase an aggregate of 1,283,000 shares of Common Stock which are not exercisable within 60 days after January 1, 1994, except for the option grant with respect to 50,000 shares to Mr. Falvo, which is expected to fully vest in 1994 in conjunction with his retirement.

(b) Messrs. Fetzer and Zubrow are general partners of Goldman, Sachs & Co. As general partners, Messrs. Fetzer and Zubrow may be deemed to be the beneficial owners of shares beneficially owned or held by Goldman, Sachs & Co. and its affiliates, including Water Street and The Goldman Sachs Group, L.P. As described above, Goldman, Sachs & Co. owns directly 96,539 shares of Common Stock and, as the general partner of Water Street, may be deemed to be the beneficial owner of the 15,893,231 shares of Common Stock and 116,070 Warrants owned directly by Water Street. Messrs. Fetzer and Zubrow disclaim beneficial ownership of such shares and Warrants other than to the extent such ownership corresponds to their respective percentage interests in Goldman, Sachs & Co., The Goldman Sachs Group, L.P. and Water Street.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

AGREEMENT WITH WATER STREET ENTITIES

On February 25, 1993, the Corporation entered into an agreement with Water Street (the "WATER STREET AGREEMENT"). The Water Street Agreement, among other things, (i) restricts Water Steet and its affiliates Goldman, Sachs & Co. and The Goldman Sachs Group, L.P. (collectively the "WATER STREET ENTITIES") from purchasing, or offering or agreeing to purchase, any shares of Common Stock or other voting securities of the Corporation, except for Permitted Acquisitions (as defined in the Water Street Agreement) and acquisitions by any Water Street Entity other than Water Street of up to an aggregate of 10% of the then outstanding shares of Common Stock in the ordinary course of its business; (ii) requires (a) Water Street to vote all shares of Common Stock and other voting securities of the Corporation beneficially owned by it and (b) the other Water Street Entities to vote all shares of Common Stock beneficially owned by them in excess of 10% of the then outstanding shares of Common Stock, in each case, in the same proportion as the votes cast by all other holders of Common Stock and other voting securities of the Corporation, subject to certain exceptions described below; (iii) places restrictions on the ability of the Water Street Entities to transfer shares of Common Stock to any person, except for (a) sales consistent with Rule 144 of the Securities Act of 1993, (b) underwritten public offerings, (c) persons not known to be 5% holders, (d) pledgees who agree to be bound by certain provisions of the Water Street Agreement, (e) in the case of Water Street, distributions to Water Street's partners in accordance with the governing partnership agreement, (f) pursuant to certain tender or exchange offers for shares of Common Stock and (g) pursuant to transactions approved by the Board; (iv) provides Water Street with certain rights to nominate directors to the Board and Finance Committee (as described below); (v) requires the maintenance of directors' and officers' liability insurance and indemnification rights; (vi) requires that the Corporation's shareholder rights plan provide temporary exemptions for ownership of Common Stock by the Water Street Entities; (vii) provides Water Street with four demand registrations and unlimited piggyback registrations, subject to certain limitations described below; and (viii) provides for indemnification by the Corporation of Water Street, its underwriters and related parties for securities law claims related to any demand or piggyback registration contemplated in clause (vii) above.

In connection with the Restructuring, Water Street nominated two New Directors to the Board, Wade Fetzer III and Barry L. Zubrow. See Item 10, "Directors and Executive Officers of the Registrant". In the event that the Water Street Directors are removed from office without the consent of Water Street, then the restrictions on the Water Street Entities relating to (i) the purchases of voting securities of the Corporation other than Permitted Acquisitions, (ii) the voting of securities of the Corporation and (iii) the transfer of shares of Common Stock, as described above, shall terminate. These restrictions shall also terminate upon the earliest to occur of: (i) the consummation of a merger, consolidation or other business combination to which the Corporation is a constituent corporation, if the stockholders of the Corporation immediately before such merger, consolidation or combination do not own more than 50% of the combined voting power of the then outstanding voting securities of the surviving corporation, (ii) the Board consisting of a majority of directors not approved by a vote of the directors serving at the time the Water Street Agreement was executed, and (iii) the tenth anniversary of the Water Street Agreement. In addition, the restrictions on purchases of voting securities and transfers of Common Stock shall also terminate upon the Water Street Entities owning less than 5% of the then outstanding shares of Common Stock.

Furthermore, the Water Street Entities will not be subject to the voting restrictions contained in the Water Street Agreement if, among other things: (i) the Corporation defaults on the payment of principal or interest required to be paid pursuant to any indebtedness if the aggregate amount of such indebtedness is $25 million or more; (ii) the principal of any of the Corporation's indebtedness is declared due and payable prior to the date on which it would otherwise become due and payable if the aggregate amount of such indebtedness is $25 million or more; (iii) any person other than Water Street becomes the beneficial owner of more than 10% of the then outstanding shares of Common Stock; or (iv) the Corporation fails to comply with (x) the following financial covenants: a minimum senior interest coverage ratio, a minimum total interest coverage ratio, a minimum fixed charge coverage ratio, a minimum adjusted cumulative net worth, and a maximum leverage ratio or (y) a minimum total interest coverage ratio of 0.63 for a specified coverage period in 1993 and for the first quarter of 1994, 0.84 for the second quarter of 1994, 0.97 for the third quarter of 1994 and 1.14 for the fourth quarter of 1994, provided that (a) such financial covenants shall be calculated based only on domestic revenues unless the Corporation's non-domestic consolidated revenues exceed 35% of its total consolidated revenues, and (b) the Corporation shall not be deemed out of compliance in the event of a breach, after 1994 and prior to 1998, of the senior interest coverage ratio or the total interest coverage ratio unless there shall also exist at such time a breach of the fixed charge coverage ratio or in the event of a breach, after 1994 and prior to 1998, of the fixed charge coverage ratio unless there shall also exist at such time a breach of either the senior interest coverage ratio or the total interest coverage ratio. See "Description of Credit Agreement". If the Corporation complies with the financial covenants within the two fiscal quarters following the first failure to comply, the voting restrictions shall apply again. However, if the Corporation thereafter fails to comply with any of the financial covenants, the voting restrictions shall terminate.

The provision of registration rights to Water Street is subject to certain limitations, including but not limited to the following: (i) of Water Street's four demand registrations, the Corporation shall pay the registration expenses (other than commissions and discounts of underwriters) for two registrations, and the Corporation and Water Street shall each pay one-half of the registration expenses (other than commissions and discounts of underwriters) for two registrations; and (ii) other than in connection with the Offering, Water Street (and any Water Street Entity that receives a distribution of Common Stock from Water Street and owns 5% or more of the then outstanding shares of Common Stock) shall not request a demand registration of Common Stock during any period in which the Corporation is actively engaged in a registered distribution of Common Stock until 90 days after the effective date of the registration statement relating to such distribution. With respect to the Offering, Water Street (and, if it distributes Common Stock to its partners, those partners) shall not request a demand registration of Common Stock during the 120-day period after the effective date of the Offering. In addition, during such 120-day period, Water Street and Goldman, Sachs & Co. shall not sell or otherwise dispose of any shares of Common Stock or Warrants, except that, at any time after 90 days after the effective date of the Offering, Water Street may distribute all or any portion of its shares of Common Stock or Warrants to its partners in accordance with its governing partnership agreement. In the event of any such distribution by Water Street, the partners (other than Goldman, Sachs & Co.) would not be subject to the restriction on selling shares of Common Stock or Warrants during the remainder of the 120-day period referred to above. Except in the case of the Offering, the Corporation and Water Street have mutual piggyback rights on registrations initiated by either, generally on a 50-50 basis.

The Water Street Agreement originally provided, subject to certain exceptions, that, in connection with the first underwritten public offering of Common Stock after the Restructuring, the Corporation would have the right to sell, without participation of Water Street, up to such number of shares of Common Stock as would yield an aggregate price to the public of $100,000,000 and that, if a greater number of shares were to be sold in that offering, Water Street and the Corporation would each have the right to sell 50% of such greater number of shares. In addition, in connection with such offering, subject to certain exceptions, the Water Street Agreement originally provided that Water Street (and, if it distributes Common Stock to its partners, those partners) would not request or demand registration of Common Stock during the 180-day period after the effective date of such offering, rather than the 120-day period that applies to the Offering. In connection with the Offering, the Corporation and Water Street have mutually determined that they would sell in the Offering 4,000,000 shares of Common Stock, without regard to such $100,000,000 limitation, and that such 120-day period would apply in lieu of such 180-day period.

NOTE PLACEMENT

Fidelity Management & Research Company and Fidelity Management Trust Company may beneficially own in excess of 5% of the outstanding shares of Common Stock. See Item 12. "Security Ownership of Certain Beneficial Owners and Management." In connection with the Note Placement, certain funds and accounts managed or advised by Fidelity Management & Research Company and Fidelity Management Trust Company purchased $150 million in aggregate principal amount of Senior Notes due 2001. Such purchasers exchanged approximately $30 million aggregate principal amount of the Corporaton's outstanding Senior Notes due 1996 and approximately $35 million aggregate principal amount of the Corporation's outstanding Senior Notes due 1997 and paid the $85 million balance of the purchase price in cash.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

EXHIBIT INDEX

(A) 1. & 2. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL STATEMENT SCHEDULES

See Part II, Item 8. "Financial Statements and Supplementary Data" for an index of the Corporation's consolidated financial statements and supplementary data schedules.

3. EXHIBITS (REG. S-K, ITEM 601):

Exhibits followed by an (*) constitute management contracts or compensatory plans or arrangements.

EXHIBIT NO.		Page
3	Articles of incorporation and by-laws:	
	(a) Restated Certificate of Incorporation of USG Corporation (incorporated by reference to Exhibit 3.1 of USG Corporation's Form 8-K, dated May 7, 1993.)	
	(b) Amended and Restated By-Laws of USG Corporation, dated as of May 12, 1993 (incorporated by reference to Exhibit 3(b) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61162 on Form S-1, dated June 16, 1993).	
4	Instruments defining the rights of security holders, including indentures:	
	(a) Indenture dated as of October 1, 1986 between USG Corporation and Harris Trust and Savings Bank, Trustee (incorporated by reference to Exhibit 4(a) of USG Corporation's Registration Statement No. 33-9294 on Form S-3, dated October 7, 1986).	
	(b) Resolutions dated December 16, 1986 of a Special Committee created by the Board of Directors of USG Corporation.	
	(c) Resolutions dated March 5, 1987 of a Special Committee created by the Board of Directors of USG Corporation.	
	(d) Resolutions dated March 6, 1987 of a Special Committee created by the Board of Directors of USG Corporation.	
	(e) Resolutions dated April 26, 1993 of a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 8% Senior Notes due 1995 and 9% Senior Notes due 1998 (incorporated by reference to Exhibit 4.1 of USG Corporation's Form 8-K, dated May 7, 1993).	
	(f) Consent Resolutions adopted by a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 9-1/4% Senior Notes due 2001.	

(g) Indenture dated as of April 26, 1993 among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustees, relating to USG Corporation's 10-1/4% Senior Notes due 2002 (incorporated by reference to Exhibit 4.2 of USG Corporation's Form 8-K, dated May 7, 1993).

(h) Indenture dated as of August 10, 1993 among USG Corporation, certain guarantors and State Street Bank and Trust Company, as Trustee, relating to USG Corporation's 10-1/4% Senior Notes due 2002, Series B (incorporated by reference to Exhibit 4(f) of USG Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 dated August 12, 1993.

(i) Warrant Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Warrant Agent, relating to USG Corporation's Warrants (incorporated by reference to Exhibit 4.3 of USG Corporation's Form 8-K, dated May 7, 1993).

(j) Form of Warrant Certificate (incorporated by reference to Exhibit 4(g) of Amendment No. 4 to USG Corporation's Registration Statement No. 33-40136 on Form S-4, dated November 12, 1992).

(k) Rights Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 10.1 of USG Corporation's Form 8-K, dated May 7, 1993).

(l) Form of Common Stock certificate (incorporated by reference to Exhibit 4.4 to USG Corporation's Form 8-K, dated May 7, 1993).

The Corporation and certain of its consolidated subsidiaries are parties to long-term debt instruments under which the total amount of securities authorized does not exceed 10% of the total assets of the Corporation and its subsidiaries on a consolidated basis. Pursuant to paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, the Corporation agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.

10 Material contracts:

(a) Management Performance Plan of USG Corporation (incorporated by reference to Annex C of Amendment No. 8 to USG Corporation's Registration Statement No. 33-40136 on Form S-4, dated February 3, 1993).*

(b) 1991-1993 Management Incentive Compensation Program -- USG Corporation, as amended (incorporated by reference to Exhibit 10(b) of USG Corporation's 1991 Annual Report on Form 10-K, dated March 5, 1992).*

(c) Amendment and Restatement of USG Corporation Supplemental Retirement Plan, effective as of July 1, 1993 and dated November 30, 1993 (incorporated by reference to Exhibit 10(c) of USG Corporation's Registration No. 33-51845 on Form S-1).*

(d) First Amendment of USG Corporation Supplemental Retirement Plan, effective as of November 15, 1993 and dated December 2, 1993 (incorporated by reference to Exhibit 10(d) of USG Corporation's Registration No. 33-51845 on Form S-1).*

(e) Termination Compensation Agreements (incorporated by reference to Exhibit 10(h) of USG Corporation's 1991 Annual Report on Form 10-K, dated March 5, 1992).*

(f) USG Corporation Severance Plan for Key Managers, dated May 15, 1991 (incorporated by reference to Exhibit 10(i) of USG Corporation's 1991 Annual Report on Form 10-K, dated March 5, 1992).*

(g) Indemnification Agreements (incorporated by reference to Exhibit 10(g) of Amendment No. 1 to USG Corporation's Registration No. 33-51845 on Form S-1).*

(h) Form of Change of Control Waiver (incorporated by reference to Exhibit 10(t) of USG Corporation's 1992 Annual Report on Form 10-K dated March 26, 1993).*

(i) Incentive Recovery Program -- Waiver of Full Payment (incorporated by reference to Exhibit 10(u) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).*

(j) Rights Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 10.1 of Form 8-K filed by USG Corporation on May 7, 1993).

(k) Warrant Agreement dated May 6, 1993 between USG Corporation and Harris Trust and Savings Bank, as Warrant Agent, relating to USG Corporation's Warrants (incorporated by reference to Exhibit 4.3 of Form 8-K filed by USG Corporation on May 7, 1993).

(l) Amended and Restated Credit Agreement dated as of May 6, 1993 among USG Corporation and USG Interiors, Inc., as borrowers; the Financial Institutions listed on the signature pages thereof, as Senior Lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as Agents; and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 of Form 8-K filed by USG Corporation on May 7, 1993).

(m) First Amendment to Amended and Restated Credit Agreement between USG Corporation and USG Interiors, Inc. as borrowers; the Financial Institutions listed on the signature pages thereof, as Senior Lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as Agents; and Citibank, N.A., as Administrative Agent (incorporated by reference to Exhibit 4M of USG Corporation's Registration Statement No. 35-65804 on Form S-1, dated July 9, 1993).

(n) Second Amendment to Amended and Restated Credit Agreement between USG Corporation and USG Interiors, Inc. as borrowers; the Financial Institutions listed on the signature pages thereof, as Senior Lenders; Bankers Trust Company, Chemical Bank and Citibank, N.A., as Agents; and Citibank, N.A., as Administrative Agent (incorporated by reference to 10(n) of Amendment No. 1 to USG Corporation's Registration No. 33-51845 on Form S-1).

(o) Letter of Credit Issuance and Reimbursement Agreement dated as of May 6, 1993 between USG Interiors, Inc. and Chemical Bank (incorporated by reference to Exhibit 10.12 of Form 8-K filed by USG Corporation on May 7, 1993).

(p) Amended and Restated Collateral Trust Agreement dated as of May 6, 1993 among USG Corporation, USG Interiors, Inc. and USG Foreign Investments, Ltd., as grantors, and Wilmington Trust Company and William J. Wade, as Trustees (incorporated by reference to Exhibit 10.6 of Form 8-K filed by USG Corporation on May 7, 1993).

(q) Amended and Restated Company Pledge Agreement dated as of May 6, 1993 among USG Corporation, Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.7 of Form 8-K filed by USG Corporation on May 7, 1993).

(r) Amended and Restated Subsidiary Pledge Agreement dated as of May 6, 1993 among USG Interiors, Inc., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.8 of Form 8-K filed by USG Corporation on May 7, 1993).

(s) Amended and Restated Subsidiary Pledge Agreement dated as of May 6, 1993 among USG Foreign Investments, Ltd., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.9 of Form 8-K filed by USG Corporation on May 7, 1993).

(t) Amended and Restated Share Pledge Agreement dated as of May 6, 1993 among USG Foreign Investments, Ltd., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.10 of Form 8-K filed by USG Corporation on May 7, 1993).

(u) Amended and Restated Deed of Charge dated as of May 6, 1993 among USG Foreign Investments, Ltd., Wilmington Trust Company and William J. Wade (incorporated by reference to Exhibit 10.11 of Form 8-K filed by USG Corporation on May 7, 1993).

(v) Amended and Restated Company Guaranty dated as of May 6, 1993 made by USG Corporation (incorporated by reference to Exhibit 10.3 of Form 8-K filed by USG Corporation on May 7, 1993).

(w) Amended and Restated Subsidiary Guaranty dated as of May 6, 1993 made by USG Interiors, Inc. (incorporated by reference to Exhibit 10.1 of Form 8-K filed by USG Corporation on May 7, 1993).

(x) Form of Amended and Restated Subsidiary Guaranty dated as of May 6, 1993 made by each of United States Gypsum Company, USG Foreign Investments, Ltd., L&W Supply Corporation, USG Interiors International, Inc., La Mirada Products Co., Inc., Westbank Planting Company, American Metals Corporation and USG Industries, Inc. (incorporated by reference to Exhibit 10.5 of Form 8-K filed by USG Corporation on May 7, 1993).

(y) Consent and Agreement dated as of August 22, 1991 with respect to the Old Credit Agreement dated as of July 1, 1988 (incorporated by reference to Exhibit 10(ai) of USG Corporation's Form 8-K, dated August 23, 1991).

(z) First Amendment dated as of March 12, 1993 with respect to the Consent and Agreement dated as of August 22, 1991 (incorporated by reference to Exhibit 10(ap) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).

(aa) Deposit Agreement dated as of September 19, 1991 (incorporated by reference to Exhibit 10(aq) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).

(ab) First Amendment dated as of March 12, 1993 to the Deposit Agreement (incorporated by reference to Exhibit 10(ar) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).

(ac) Agreement, dated August 31, 1992, among USG Corporation and the Ad Hoc Committee of Holders of 13 1/4% Senior Subordinated Debentures of USG Corporation due 2000 (incorporated by reference to Exhibit 10(aq) of Amendment No. 4 to USG Corporation's Registration Statement No. 33-40136 on Form S-4).

(ad) Letter Agreement dated February 25, 1993 among USG Corporation, Water Street Corporate Recovery Fund, L.P., the Goldman Sachs Group, L.P. and Goldman, Sachs & Co. (incorporated by reference to Exhibit 10(au) of USG Corporation's 1992 Annual Report on Form 10-K, dated March 26, 1993).

(ae) Bankruptcy Court Order issued April 23, 1993 confirming USG Corporation's Prepackaged Plan of Reorganization (incorporated by reference to Exhibit 28.1 of Form 8-K filed by USG Corporation on May 7, 1993).

(af) Consulting Agreement dated July 1, 1990, as amended March 23, 1992, between USG Corporation and William L. Weiss (incorporated by reference to Exhibit 10(au) of Amendment No. 4 to USG Corporation's Registration Statement No. 33-40136 on Form S-4).

(ag) Consulting Agreement dated May 6, 1993 between USG Corporation and Jack D. Sparks (incorporated by reference to Exhibit 10(av) in USG Corporation's Registration Statement 33-51845 on Form S-1).

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(ah) Consulting Agreement dated August 11, 1993 between USG Corporation and James W. Cozad (incorporated by reference to Exhibit 10(aw) in USG Corporation's Registration Statement 33-51845, on Form S-1).

(ai) 1993 Annual Management Incentive Program -- USG Corporation (incorporated by reference to Exhibit 10(b) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(aj) Form of Employment Agreement dated May 12, 1993 (incorporated by reference to Exhibit 10(h) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(ak) Amendment of Termination Compensation Agreements (incorporated by reference to Exhibit 10(j) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(al) Form of Nonqualified Stock Option Agreement effective June 1, 1993 (incorporated by reference to Exhibit 10(l) of Amendment No. 1 on USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(am) Form of Nonqualified Stock Option Agreement with Anthony J. Falvo, Jr. effective June 1, 1993 (incorporated by reference to Exhibit 10(m) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(an) Form of First Amendment to Amended and Restated Collateral Trust Agreement (incorporated by reference to Exhibit 10(w) of Amendment No. 1 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(ao) Form of First Amendment to Amended and Restated Subsidiary Guaranty (incorporated by reference to Exhibit 10(ae) of Amendment No. 2 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(ap) Form of First Amendment to Amended and Restated Subsidiary Guaranty (incorporated by reference to Exhibit 10(ae) of Amendment No. 2 to USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(aq) First Amendment to Management Performance Plan, effective November 15, 1993 and dated February 1, 1994 (incorporated by reference to Exhibit 10(aq) of USG Corporation's Registration Statement No. 33-51845 on Form S-1).

(ar) Modification letter dated February 1, 1994 to Nonqualified Stock Option Agreement dated June 1, 1993 between USG Corporation and Eugene B. Connolly (incorporated by reference to Exhibit 10(ar) of USG Corporation's Registration Statement No. 33-51845 on Form S-1).

(as) Form of Nonqualified Stock Option Agreement effective February 9, 1994 (incorporated by reference to Exhibit 10(as) of USG Corporation's Registration Statement No. 33-51845 on Form S-1).

(at) Executive Consulting Agreement effective March 1, 1994 between USG Corporation and Anthony J. Falvo, Jr. (incorporated by reference to Exhibit 10(at) of USG Corporation's Registration Statement No. 33-51845 on Form S-1).

11 Computation of Earnings/(Loss) Per Common Share

21 Subsidiaries

23 Consents of Experts and Counsel

(a) Consent of Arthur Andersen & Co.

24 Power of Attorney

(B) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed during the fourth quarter of 1993.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USG CORPORATION

February 24, 1994

By: /s/ Richard H. Fleming

Richard H. Fleming
Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Eugene B. Connolly EUGENE B. CONNOLLY Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 1994
/s/ Richard H. Fleming RICHARD H. FLEMING Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 1994
/s/ Raymond T. Belz RAYMOND T. BELZ Vice President and Controller (Principal Accounting Officer)	February 24, 1994

ROBERT L. BARNETT, KEITH A. BROWN, W. H. CLARK, JAMES C. COTTING, LAWRENCE M. CRUTCHER, ANTHONY J. FALVO, JR., WADE FETZER III, DAVID W. FOX, PHILIP C. JACKSON, JR., MARVIN E. LESSER, ALAN G. TURNER, BARRY L.ZUBROW Directors	By: /s/ Richard H. Fleming Richard H. Fleming Attorney-in-fact Pursuant to Power of Attorney (Exhibit 24 hereto) February 24, 1994

APPENDIX TO FORM 10-K

The following graphic has been omitted from the EDGAR submission of USG Corporation's form 10-K:

Page 7:

A line graph depicting United States Gypsum wallboard industry shipments and United States total housing starts for the years 1982 through 1993 was replaced with a table providing such data.

Exhibit 4(b)

MGT426F

Action Taken by a Special Committee
Created by the Board of Directors of
USG Corporation

WHEREAS, USG Corporation (the "Corporation") has entered into an Indenture, dated as of October 1, 1986 (the "Indenture"), with Harris Trust and Savings Bank (the "Trustee"), providing for the issuance from time to time of debt securities(the "Securities") in one or more series under the Indenture; and

WHEREAS, the Corporation has filed a Registration Statement on Form S-3 (the "Registration Statement") with the Securities and Exchange Commission (the "Commission") relating to the registration of $200 million aggregate principal amount of Securities under the Securities Act of 1933, as amended; and

WHEREAS, the Board of Directors of the Corporation has established a special committee of said Board of Directors, consisting of Robert J. Day, Harry M. Stover and Eugene Miller (the "Special Committee"), which committee has been authorized by said Board of Directors to take all actions relating to the issuance of the Securities from time to time, including, without limitation, determining and specifying the terms and the form of any of the Securities to be issued under the Indenture by the Corporation and authorizing and approving an underwriting agreement for the sale of the Securities; and

WHEREAS, in light of the inability of Eugene Miller to attend the meeting of the Special Committee, Robert J. Day has designated William R. Hogan to attend such meeting in the place of Eugene Miller; and

WHEREAS, the Corporation desires to create two series of Securities under the Indenture and to make provision for the form and terms thereof, and to make provision for certain other matters in connection with the issuance and sale of the Securities; and

WHEREAS, capitalized terms used in these resolutions and not otherwise defined herein are used with the same meaning ascribed to such terms in the Indenture;

NOW, THEREFORE, BE IT RESOLVED: That the following resolutions are adopted by the Special Committee effective December 16, 1986.

BE IT FURTHER RESOLVED: That there are hereby approved and established two series of Securities under the Indenture, whose terms shall be as follows:

(1) The series of Securities established hereby to be issued pursuant to the Indenture shall be known and designated, respectively, as the "7-3/8% Senior Notes Due 1991" (the "1991 Notes") and the "8% Senior Notes Due 1996" (the "1996 Notes") (the 1991 Notes and the 1996 Notes are hereinafter collectively referred to as the "Notes").

(2) The aggregate principal amount of each of the 1991 Notes and the 1996 Notes is limited to $100,000,000 (except as provided in Section 2.01(2) of the Indenture).

(3) The stated maturity of the principal of the 1991 Notes shall be December 15, 1991, and the stated maturity of the principal of the 1996 Notes shall be December 15, 1996.

(4) The 1991 Notes and the 1996 Notes shall bear interest at the rate of 7-3/8% per annum and 8% per annum, respectively, from December 15, 1986 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable on each June 15 and December 15, commencing June 15, 1987 until the principal amount thereof is paid or made available for payment. Each June 15 and December 15 shall be an "Interest Payment Date" for the Notes. The June 1 or December 1 (whether or not a Business Day) next preceding an Interest Payment Date shall be the "Regular Record Date" for the interest payable on such Interest Payment Date.

(5) The principal of and interest on the Notes shall be payable, and the Notes shall be transferable and exchangeable, at the office or agency of the Corporation maintained for that purpose in the City of Chicago, State of Illinois; PROVIDED, HOWEVER, that at the option of the Corporation, payment of interest may be made by check mailed to the address of the Holder entitled thereto as such address shall appear in the Security Register.

(6) The Notes shall not be redeemable at the Corporation's option prior to maturity.

(7) The Notes shall be issued only in denominations of $1,000 and integral multiples thereof.

(8) The Notes shall be issued as Registered Securities only, in fully registered form.

(9) The following additional covenants of the Corporation shall be added for the benefit of the Notes:

DEFINITIONS APPLICABLE TO COVENANTS. The following definitions shall be applicable to the covenants specified below:

(i) "Attributable Debt" means as to any particular lease under which any Person is at the time liable and at any date as of which the amount thereof is to be determined, the total net amount of rent required to be paid by such Person under such lease during the remaining term thereof (including any period for which such lease has been extended or may, at the option of the lessor, be extended), discounted from the respective due dates thereof to such date at a rate per annum equal to one-fourth of one percent above the rate per annum borne by the 1996 Notes compounded semi-annually. The net amount of rent required to be paid under any such lease for any such period shall be the aggregate amount of the rent payable by the lessee with respect to such period after excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

(ii) "Consolidated Net Tangible Assets" means the aggregate amount of assets (including investments in Unrestricted Subsidiaries, but less applicable reserves and other properly deductible items) after deducting therefrom (a) all liabilities and liability items except Funded Debt, deferred income taxes and stockholders' equity, and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like in tangibles, in each case computed in accordance with generally accepted accounting principles, which under generally accepted principles would appear on a consolidated balance sheet of the Corporation and its Restricted Subsidiaries.

(iii) "Funded Debt" means any indebtedness for money borrowed maturing on, or extendible at the option of the obligor to, a date more than one year from the date of the determination thereof.

(iv) "Mortgage" means and includes any mortgage, pledge, lien, security interest, conditional sale or other title retention agreement or other similar encumbrance.

(v) "Principal Operating Property" means any principal manufacturing plant, or distribution or research facility, and related raw material and other facilities (other than facilities acquired subsequent to the date hereof for the control or abatement of atmospheric pollutants or contaminants, water pollution, noise, odor, or other pollution) which on the effective date hereof or at any time subsequent thereto is located in the United States and has been owned and operated by the Corporation or any Subsidiary for more than 90 days, provided, however, that any principal manufacturing plant, or distribution or research facility, and related raw material and other facilities (not theretofore owned by the Corporation or a Subsidiary) owned and operated by a corporation which becomes a Subsidiary after the effective date hereof shall not constitute a Principal Operating Property unless owned and operated by such corporation for more than 90 days after it becomes a Subsidiary; and provided, further, that the Board of Directors may by Board Resolution declare that any plant is not of material importance to the business of the Corporation and its Restricted Subsidiaries as a whole, in which case such plant shall not be deemed to be a Principal Operating Property.

(vi) "Restricted Subsidiary" means as of the date of determination any Subsidiary which owns any Principal Operating Property.

(vii) "Senior Funded Debt" means all Funded Debt, and all renewals, extensions and refundings of Funded Debt, except Subordinated Funded Debt.

(viii) "Subordinated Funded Debt" means (i) the Corporation's 4.85% Subordinated Sinking Fund Debentures due 1991 and (ii) any other unsecured Funded Debt of the Corporation which is expressly made subordinate and junior in rank and right of payment to the Notes in the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the Corporation or to its creditors, as such, or to its property, and in the event of any proceedings for voluntary liquidation, dissolutions or other winding up of the Corporation, whether or not involving insolvency or bankruptcy.

(ix) "Subsidiary" of the Corporation means any corporation at least a majority of the shares of the Voting Stock (or the equivalent thereof, in the case of corporations organized outside the United States of America) of which shall at the time be owned, directly or indirectly, by the Corporation or by one or more

Subsidiaries or by the Corporation and one or more Subsidiaries.

(x) "Unrestricted Subsidiary" means any Subsidiary other than a Restricted Subsidiary.

(xi) "Voting Stock", as applied to the stock of any corporation, means stock of any class or classes (however designated) having ordinary voting power for the election of a majority of the directors of such corporation, other than stock having such power only by reason of the happening of a contingency.

LIMITATION ON LIENS. So long as any Notes shall be Outstanding, the Corporation will not itself, and will not permit any Restricted Subsidiary to, incur, issue, assume, guarantee or suffer to exist any indebtedness for money borrowed (indebtedness for money borrowed being hereinafter in this paragraph called "Debt") secured by a Mortgage on any Principal Operating Property of the Corporation or any Restricted Subsidiary, or any shares of stock of or Debt of any Restricted Subsidiary, without effectively providing that the Notes (together with, if the Corporation shall so determine, any other Debt of the Corporation or such Restricted Subsidiary then existing or thereafter created which is not subordinated Debt) shall be secured equally and ratably with (or, at the option of the Corporation, prior to) such secured Debt so long as such secured Debt shall be so secured, unless, after giving effect thereto, the aggregate amount of all such secured Debt plus all Attributable Debt of the Corporation and its Restricted Subsidiaries in respect of sale and leaseback transactions (as defined in the following paragraph, but excluding leases exempt from the prohibition of the following paragraph clauses (B) through (D), inclusive, thereof) would not exceed 5% of Consolidated Net Tangible Assets; provided, however, that this paragraph shall not apply to, and there shall be excluded from secured Debt in any computation under this paragraph, Debt secured by:

(A) Mortgages on, and limited to, property of, or on any shares of stock of or Debt of, any corporation existing at the time such corporation becomes a Restricted Subsidiary;

(B) Mortgages in favor of the Corporation or any Restricted Subsidiary;

(C) Mortgages in favor of any governmental body to secure progress, advance or other payments pursuant to any contract or provision of any statute;

(D) (i) if made and continuing in the ordinary course of business, any Mortgage as security for the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money or the securing of Debt, or (ii) any Mortgage with any governmental agency required or permitted to qualify the Corporation or any Restricted Subsidiary to conduct business, to maintain self-insurance or to obtain the benefits of any law pertaining to workmen's compensation, unemployment insurance, old age pensions, social security or similar matters;

(E) Mortgages for taxes, assessments or governmental charges or levies if such taxes, assessments, governmental charges or levies shall not at the time be due and payable, or if the same thereafter can be paid without penalty, or if the same are being contested in good faith by appropriate proceedings;

(F) Mortgages created by or resulting from any litigation or legal proceeding which at the time is currently being contested in good faith by appropriate proceedings; or Mortgages arising out of judgements or awards as to which the time for prosecuting an appeal or proceeding for review has not expired;

(G) Mortgages on, and limited to, property (including leasehold estates), shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation) or to secure the payment of all or any part of the purchase price thereof or construction thereon or to secure any Debt incurred prior to, at the time of, or within 120 days after the later of the acquisition, the completion of construction or the commencement of full operation of such property or within 120 days after the acquisition of such shares or Debt for the purpose of financing all or any part of the purchase price thereof or construction thereon; or

(H) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Mortgage referred to in the foregoing clauses (A) through (G), inclusive, provided, that (i) such extension, renewal or replacement Mortgage shall be limited to all or a part of the same property, shares of stock or Debt that secured the Mortgage extended, renewed or replaced (plus improvements on such property) and (ii) the Debt secured by such Mortgage at such time is not increased.

LIMITATION ON SALE AND LEASEBACK. So long as any Notes shall be Outstanding, except as hereinafter provided, the Corporation will not itself, and it will not permit any Restricted Subsidiary to, enter into any transaction with any bank, insurance company or other lender or investor, or to which any such bank, company, lender or investor is a party, providing for the leasing by the Corporation or a Restricted Subsidiary of any Principal Operating Property owned at December 15, 1986 which has been or is to be sold or transferred by the Corporation or a Restricted Subsidiary to such bank, company, lender or investor, or to any Person to whom funds have been or are to be advanced by such bank, company, lender or investor on the security of such Principal Operating Property (herein referred to as a "sale and leaseback transaction"). This covenant shall not apply to any sale and leaseback transaction if:

(A) the Corporation or such Restricted Subsidiary could create Debt secured by a Mortgage pursuant to the preceding paragraph, without regard to clauses (A) through (H) thereof, on the Principal Operating Property to be leased in an amount equal to the Attributable Debt with respect to such sale and leaseback transaction without equally and ratably securing the Notes, or

(B) the Corporation or a Restricted Subsidiary, within 120 days after the sale or transfer shall have been made by the Corporation or by a Restricted Subsidiary, applies an amount equal to the greater of the net proceeds from the sale of the Principal Operating Property leased pursuant to such arrangement or the fair market value of the Principal Operating Property so leased at the time of entering into such arrangement (as determined in any manner approved by the Board of Directors) to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary; provided, that the amount to be applied to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary shall be reduced by (i) the principal amount of any Notes (or other debentures or notes constituting Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary) delivered within 75 days after such sale or transfer to the Trustee or other applicable trustee for retirement and cancellation and (ii) the principal amount of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary, other than Funded Debt included under clause (i), voluntarily retired by the Corporation or a Restricted Subsidiary within 75 days after such sale. Notwithstanding the foregoing, no retirement referred to in this clause (B) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision, or

(C) the lease in such sale and leaseback transaction is for a period, including renewals, of no more than three years, or

(D) such arrangement is between the Corporation and a Restricted Subsidiary or between Restricted Subsidiaries.

(10) The following additional Event of Default shall be added for the benefit of the Notes:

any event of default or events of default as defined in any mortgages, indentures or instruments, under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money of the Corporation or any Subsidiary in excess of $50,000,000 principal amount in the aggregate, whether such indebtedness now exists or shall hereafter be created, which shall happen and shall result in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, and such acceleration or accelerations shall not be rescinded or annulled for a period of ten days after there has been given, by registered or certified mail, to the Corporation by the Trustee or to the Corporation and the Trustee by the Holders of at least 25% in principal amount of the 1991 Notes or the 1996 Notes, as the case may be, Outstanding, a written Notice specifying such event of default or events of default and requiring the Corporation to cause such acceleration or accelerations to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder.

For all purposes of the Indenture, the foregoing Event of Default shall be deemed to be an Event of Default described in (a), (b) or (c) of Section 6.01 of the indenture.

(11) The following additional provisions shall be added for the benefit of the Notes:

LIMITED MANDATORY REDEMPTION OBLIGATION.

(a) DEFINITIONS. For purposes of this provision, the following definitions shall apply:

(i) "Affiliate" of a Person means any other Person controlling, controlled by or under common control with such Person, either solely with respect to the purchase or other acquisition of Common Shares or otherwise.

(ii) "Common Shares" means the shares of Common Stock, $4.00 par value per share, of the Corporation.

(iii) "Designated Event" means any one or more of the following, which occurs subsequent to December 15, 1986:

(A) (1) the Corporation shall consolidate with or merge into any other corporation or convey, transfer or lease all or substantially all of its assets to any Person, or (2) any Person shall consolidate with or merge into the Corporation pursuant to a transaction in which the Common Shares then outstanding are changed or exchanged;

(B) any Person (other than the Corporation or any Subsidiary) shall purchase or otherwise acquire directly or indirectly the beneficial ownership of Common Shares and immediately after such purchase or acquisition such Person and its Affiliates shall directly or indirectly beneficially own in the aggregate twenty percent or more of the Common Shares then outstanding;

(C) the Corporation or any Subsidiary shall purchase or otherwise acquire directly or indirectly in one or more transactions an aggregate of thirty percent or more of the Common Shares outstanding on the date immediately prior to the last such purchase or other acquisition; or

(D) the Corporation shall make any distribution or distributions of cash, property or securities (other than regular periodic cash dividends at a rate which is substantially consistent with past practice, including with respect to increases in dividends, and other than Common Shares or rights to acquire Common Shares) to holders of Common Shares, whether by means of dividend, reclassification, recapitalization or otherwise, having an aggregate, fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive) in excess of an amount equal to (1) thirty percent of the fair market value (based on the closing last sale price of the Common Shares as reported in the Midwest Edition of the WALL STREET JOURNAL) of all of the Corporation's Common Shares outstanding on the date immediately prior to the date of such distribution (or, if there be more than one, the last such distribution), less (2) all amounts expended by the Corporation and its Subsidiaries (the amount expended, if other than in cash, to be determined in good faith by the Board of Directors, whose determination shall be conclusive) to purchase or otherwise acquire Common Shares subsequent to December 15, 1986 and prior to the date of such distribution (or, if there be more than one, the last such more distribution).

(iv) "Person" means any Person as defined in the Indenture but shall also include a group within the meaning of Section 13(d)(3) (or any successor provision) of the Securities Exchange Act of 1934.

(v) For purposes of this paragraph (a), "beneficial ownership" shall be determined in accordance with Rule 13d-3 (or any successor rule) of the Securities and Exchange Commission under the Securities and Exchange Act of 1934.

(b) MANDATORY REDEMPTION. If,

(i) a Designated Event shall occur at any time prior to December 15, 1987 or a proposal to consummate a Designated Event shall be publicly announced prior to December 15, 1987 and shall thereafter occur, and

(ii) the Prevailing Rating of either series of the Notes by Standard & Poor's Corporation or its successor ("S&P") or Moody's Investors Service, Inc. or its successor ("Moody's") is less than BBB- the case of S&P or Baa3 in the case of Moody's (A) on any date within 60 days following the occurrence of such Designated Event or (B) on any date in the event that such Prevailing Rating is the result of a downgrade which the relevant rating agency has publicly announced to have been caused solely by the occurrence (or proposed occurrence) of such Designated Event and related transactions,

then the Corporation (or its successor) shall redeem such series of Notes in whole (except as provided in paragraph (d) below), upon not less than 30 days' notice given as provided in the Indenture, at a redemption price of 100% of the principal amount of such series of Notes plus accrued interest to the date of redemption (provided that instalments of interest, the stated maturity of which is on or prior to the date of redemption, shall be payable to the Holder of such Notes, registered as such as the close of business on the relevant record dates, according to the terms and provisions of Section 2.04 and 3.03 of the Indenture). The date of redemption for any redemption required by this paragraph (b) shall be not more than 75 days following the earliest date on which the conditions specified in clause (i) and (ii) above shall have been satisfied. Nothing contained in this paragraph (b) shall require the Corporation to effect more than one redemption of a series of the Notes, irrespective of any elections made by Holders pursuant to paragraph (d) below.

(c) PREVAILING RATING. The "Prevailing Rating" of a series of the Notes on any date shall be the rating of such series of the Notes by S&P or Moody's as of the close of business on such date. The Corporation shall take all reasonable action necessary to enable S&P and Moody's to provide ratings for the Notes.

(d) ELECTION BY HOLDERS. Any Holder of Notes may elect not to have redeemed all (but not less than all) the Notes held by such Holder by delivering written notice of such election to the Corporation (or an agent designated by the Corporation for such purpose in the notice of redemption) by the close of business on the fifteenth day preceding the date of redemption, which notice shall specify the name of such Holder and shall identify the Notes which are not to be redeemed and their aggregate principal amount. No such notice shall be deemed to have been delivered until such notice is actually received by the Corporation (or its agent).

(12) The provisions of Article Twelve of the Indenture relating to defeasance of Securities shall be applicable to each series of the Notes, except that Section 12.02 of the Indenture as it relates to each series of the Notes shall be replaced by the following provision:

SATISFACTION, DISCHARGE AND DEFEASANCE OF NOTES. At the Corporation's option, either (a) the Corporation shall be deemed to have paid and discharged the entire indebtedness on all the Outstanding Notes of a series and the Trustee, at the expense of the Corporation, shall execute proper instruments acknowledging satisfaction and discharge of such indebtedness, or (b) the Corporation shall cease to be under any obligation to comply with any term, provision, condition or covenant applicable to the Notes of a series set forth in Section 11.01 of the Indenture, in item 9 of this Resolution (I.E., the covenants regarding "Limitations on Liens" and "Limitation on Sale and Leaseback") and in item 11 of this Resolution (i.e., the provisions regarding "Limited Mandatory Repurchase Obligation") when

(1) with respect to all Outstanding Notes of such series,

(A) the Corporation shall have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness of all Outstanding Notes of such series for principal and interest to the stated maturity or any redemption date (as contemplated by the penultimate paragraph hereof), as the case may be; or

(B) the Corporation shall have deposited or caused to be deposited with the Trustee as obligations in trust for the purpose such amount of direct noncallable obligations of, or noncallable obligations the payment of principal of and interest on which is fully guaranteed by, the United States of America, or to the payment of which obligations or guarantees the full faith and credit of the United States of America is pledged, maturing as to principal and interest in such amounts and at such times as will, together with the income to accrue thereon (but without reinvesting any proceeds thereof), be sufficient to pay and discharge the entire indebtedness on all Outstanding Notes of such series for principal and interest to the stated maturity or any redemption date (as contemplated by the penultimate paragraph hereof), as the case may be;

(2) the Corporation shall have paid or caused to be paid all other sums payable with respect to the Outstanding Notes of such series;

(3) if the Notes of such series are then listed on any national securities exchange, the Corporation shall have delivered to the Trustee an Opinion of Counsel to the effect that the Corporation's exercise of its option under this provision would not cause such Notes to be delisted;

(4) no Event of Default or event (including such deposit) which with notice or lapse of time would become an Event of Default with respect to the Notes of such series shall have occurred and be continuing on the date of such deposit;

(5) the Corporation shall have delivered to the Trustee an Opinion of Counsel of nationally recognized tax counsel to the effect that Holders of the Notes of such series will not recognize income, gain or loss for Federal income tax purposes as a result of the Corporation's exercise of its option under this provision and will be subject to Federal income tax in the same amount and in the

same manner and at the same times as would have been the case if such option had not been exercised;

(6) the Corporation shall have delivered to the Trustee an Opinion of Counsel to the effect that the Corporation's exercise of its option under this provision will not cause any violation of the Investment Company Act of 1940, as amended, on the part of the Corporation, the trust, the trust funds representing the Corporation's deposit or the Trustee; and

(7) the Corporation shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Corporation's exercise of its option under this provision have been complied with.

Any deposits with the Trustee referred to above shall be irrevocable and shall be made under the terms of an escrow trust agreement in form and substance satisfactory to the Trustee. If any Outstanding Notes of such series are to be redeemed prior to their stated maturity, the applicable escrow trust agreement shall provide therefor and the Corporation shall make such arrangements as are satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Corporation.

For purposes of this provision, "discharged" means that the Corporation shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Notes of such series and to have satisfied all the obligations under this Indenture relating to the Notes of such series (and the Trustee, at the expense of the Corporation, shall execute proper instruments acknowledging the same), except (x) the rights of Holders of Notes of such series to receive, from the trust fund described above, payment of the principal of and interest on such Notes when such payments are due, (y) the Corporation's obligations with respect to the Notes of such series under Sections 2.05, 2.07, 4.02 and 12.03 of the Indenture and (z) the rights, powers, trusts, duties and immunities of the Trustee hereunder.

BE IT FURTHER RESOLVED: That the form of the 1991 Note and 1996 Note attached hereto is in all respects approve, and that the execution and delivery of the Notes as provided in the Indenture is hereby authorized, with such changes therein as the officer executing the same shall approve, such execution to be conclusive evidence of such approval.

BE IT FURTHER RESOLVED: That the form of Underwriting Agreement (the "Underwriting Agreement") to be entered into by the Corporation and Salomon Brothers Inc, as representative of the several underwriters named therein (the "Underwriters"), a copy of which is attached hereto, is approved in all respects and that the President, any Executive Vice President, any Senior Vice President or any Vice President of the Corporation be, and each of them hereby is, authorized, in the name and on behalf of the Corporation, to execute and deliver the Underwriting Agreement, with such changes therein as the officer executing the same may approve, such execution to be conclusive evidence of such approval.

BE IT FURTHER RESOLVED: That the 1991 Notes and the 1996 Notes shall be offered at initial public offering prices equal to 99.6000% of their principal amount plus in each case accrued interest from December 15, 1986 to the date of issuance thereof, and that in payment for the Notes the Corporation shall receive, in the case of the 1991 Notes, 98.9875% of their principal amount (99.6000% of their principal amount less an underwriting discount of .6125% of their principal amount to be paid to the Underwriters), and, in the case of the 1996 Notes, 98.9500% of their principal amount (99.6000% of their principal amount less an underwriting discount of .6500% of their principal amount to be paid to the Underwriters), plus in each case accrued interest from December 15, 1986 to the date of issuance thereof.

BE IT FURTHER RESOLVED: That the form of Prospectus Supplement dated December 16, 1986 (the "Prospectus Supplement") with respect to the Notes, a copy of which is attached hereto, is in all respects approved, and that the proper officers of the Corporation are authorized to cause the Prospectus Supplement to be filed or mailed for filing with the Commission.

BE IT FURTHER RESOLVED: That the proper officers of the Corporation be, and they hereby are, authorized and directed to take such actions and to execute and deliver such instruments and documents and to do such other things as they or any of them shall deem necessary or advisable to effectuate the purposes and intent of the foregoing Resolutions.

IN WITNESS WHEREOF, the undersigned have executed this instrument this 16th day of December, 1986.

Robert J. Day

Harry M. Stover

William R. Hogan

Exhibit 4 (c)

FORM OF RESOLUTION CREATING 8-3/4% DEBENTURES DUE 2017

NOW, THEREFORE, BE IT RESOLVED: That the following resolutions are adopted by the Special Committee effective March 5, 1987.

BE IT FURTHER RESOLVED: That there is hereby approved and established a series of Securities under the Indenture, whose terms shall be as follows:

(1) The series of Securities established hereby to be issued pursuant to the Indenture shall be known and designated as the "8-3/4% Debentures Due 2017" (the "Debentures").

(2) The aggregate principal amount of the Debentures is limited to $200,000,000 (except as provided in Section 2.01(2) of the Indenture).

(3) The stated maturity of the principal of the Debentures shall be March 1, 2017.

(4) The Debentures shall bear interest at the rate of 8-3/4% per annum from March 1, 1987 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable on each September 1 and March 1, commencing September 1, 1987 until the principal amount thereof is paid or made available for payment. Each September 1 and March 1 shall be an "Interest Payment Date" for the Debentures. The August 15 or February 15 (whether or not a Business Day) next preceding an Interest Payment Date shall be the "Regular Record Date" for the interest payable on such Interest Payment Date.

(5) The principal of (and premium, if any) and interest on the Debentures shall be payable, and the Debentures shall be transferable and exchangeable, at the office or agency of the Corporation maintained for that purpose in the City of Chicago, State of Illinois; PROVIDED, HOWEVER, that at the option of the Corporation, payment of interest may be made by check mailed to the address of the Holder entitled thereto as such address shall appear in the Security Register.

(6) The Debentures shall be redeemable at the Corporation's option, as a whole or in part, upon not less than 30 nor more than 90 days' notice given as provided in the Indenture, at any time prior to maturity upon payment of the applicable optional redemption price set forth in the form of the Debenture attached hereto, plus accrued interest to the date of redemption (provided

that instalments of interest, the stated maturity of which is on or prior to the date of redemption, shall be payable to the Holders of such Debentures, registered as such at the close of business on the relevant record dates, according to the terms and provisions of Sections 2.04 and 3.03 of the Indenture).

Notwithstanding the foregoing, the Corporation may not, prior to March 1, 1997, redeem any of the Debentures pursuant to this item 6, as part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed by or for the account of the Corporation or any of its Subsidiaries (as defined in item 10 of this Resolution) having an interest cost (calculated in accordance with generally accepted financial practice) of less than 8.77% per annum.

(7) As and for a sinking fund (the "Sinking Fund") for the retirement of the Debentures the Corporation will, until all the Debentures are paid or payment thereof provided for, deposit with the Trustee prior to March 1 in each year, commencing with the year 1998 to and including the year 2016, an amount in cash sufficient to redeem, at 100% of their principal amount, not less than $10,000,000 aggregate principal amount of the Debentures (the "mandatory amount") nor more than $25,000,000, less the amount of any credit against such payment received by the Corporation under the following paragraph. Each such Sinking Fund payment shall be applied to the redemption of Debentures on such March 1, as provided below. The right to deposit an amount sufficient to redeem in excess of $10,000,000 aggregate principal amount of the Debentures for the Sinking Fund in any of the years 1998 to 2016, inclusive, shall be noncumulative.

The Corporation (1) may deliver uncancelled Debentures (other than any previously called for redemption) and (2) may apply as a credit (i) Debentures redeemed at the election of the Corporation pursuant to item 6 of this Resolution and (ii) Debentures redeemed in excess of the mandatory amounts pursuant to the preceding paragraph in satisfaction of all or any part of any Sinking Fund payment required to be made pursuant to the preceding paragraph (provided that Debentures so delivered or credited have not been previously delivered or credited in satisfaction of any mandatory Sinking Fund payment or any retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary pursuant to item 10 of this Resolution). Each such Debenture shall be received or credited for such purpose by the Trustee at 100% of its principal amount for redemption through the operation of the Sinking Fund, and the amount of such Sinking Fund payment shall be reduced accordingly.

On or before January 15 in each year commencing with the year 1998 to and including the year 2016, the Corporation will deliver to the Trustee an Officer's Certificate specifying the amount of the next ensuing Sinking Fund payment (in which event the amount so specified shall be due prior to the next ensuing March 1) and the portions of such Sinking Fund payment which are to be satisfied by payment of cash, by delivery of Debentures or by crediting Debentures, and will also deliver to the Trustee the Debentures to be so delivered. Such Officers' Certificate shall also state that the Debentures then delivered or forming the basis of any such credit qualify therefor under the preceding paragraph and do not include any Debentures which have been previously credited against any Sinking Fund payment or any retirement of Funded Debt pursuant to item 10 of this Resolution. In case of the failure, on or before January 15 in any such year, of the Corporation to give such notice and to deliver such Debentures, if any, the Sinking Fund obligation shall be $10,000,000 and shall be paid entirely in cash. On or before February 1 in each such year the Trustee shall select the Debentures or portions thereof to be redeemed upon the next ensuing March 1 in the manner specified, and cause notice of the redemption thereof to be given in the name of and at the expense of the Corporation in the manner provided, in Section 3.02 of the Indenture. Such notice having been duly given, the Sinking Fund payment shall be applied to the redemption of such Debentures or portions, such redemption to be made upon the terms and in the manner stated in Section 3.03 of the Indenture.

(8) The Debentures shall be issued only in denominations of $1,000 and integral multiples thereof.

(9) The Debentures shall be issued as Registered Securities only, in fully registered form.

(10) The following additional covenants of the Corporation shall be added for the benefit of the Debentures:

DEFINITIONS APPLICABLE TO COVENANTS. The following definitions shall be applicable to the covenants specified below:

(i) "Attributable Debt" means as to any particular lease under which any Person is at the time liable and at any date as of which the amount thereof is to be determined, the total net amount of rent required to be paid by such Person under such lease during the remaining term thereof (including any period for which such lease has been extended or may, at the option of the lessor, be extended), discounted from the respective due dates thereof to such date at a rate per annum equal to one-fourth of one percent above the rate per annum borne by the Debentures compounded semi-annually. The net amount of rent required to be paid under any such lease for any such period shall be the aggregate amount of the rent payable by the lessee with respect to such period after excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

(ii) "Consolidated Net Tangible Assets" means the aggregate amount of assets (including investments in Unrestricted Subsidiaries, but less applicable reserves an other properly deductible items) after deducting therefrom (a) all liabilities and liability items except Funded Debt, deferred income taxes and stockholders' equity, and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, in each case computed in accordance with generally accepted accounting principles, which under generally accepted accounting principles would appear on a consolidated balance sheet of the Corporation and its Restricted Subsidiaries.

(iii) "Funded Debt" means any indebtedness for money borrowed maturing on, or extendible at the option of the obligor to, a date more than one year from the date of the determination thereof.

(iv) "Mortgage" means and includes any mortgage, pledge, lien, security interest, conditional sale or other title retention agreement or other similar encumbrance.

(v) "Principal Operating Property" means any principal manufacturing plant, or distribution or research facility, and related raw material and other facilities (other than facilities acquired subsequent to the date hereof for the control or abatement of atmospheric pollutants or contaminants, water pollution, noise, odor or other pollution) which on the effective date hereof or at any time subsequent thereto is located in the United States and has been owned and operated by the Corporation or any Subsidiary for more than 90 days, provided, however, that any principal manufacturing plant, or distribution or research facility, and related raw material and other facilities (not theretofore owned by the Corporation or a Subsidiary) owned and operated by a corporation which becomes a Subsidiary after the effective date hereof shall not constitute a Principal Operating Property unless owned and operated by such corporation for more than 90 days after it becomes a Subsidiary; and provided, further, that the Board of Directors may by Board Resolution declare that any plant is not of material importance to the business of the Corporation and its Restricted Subsidiaries as a whole, in which case such plant shall not be deemed to be a Principal Operating Property.

(vi) "Restricted Subsidiary" means as of the date of determination any Subsidiary which owns any Principal Operating Property.

(vii) "Senior Funded Debt" means all Funded Debt, and all renewals, extensions and refundings of Funded Debt, except Subordinated Funded Debt.

(viii) "Subordinated Funded Debt" means (i) the Corporation's 4.85% Subordinated Sinking Fund Debentures due 1991 and (ii) any other unsecured Funded Debt of the Corporation which is expressly made subordinate and junior in rank and right of payment to the Debentures in the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the Corporation or to its creditors, as such, or to its property, and in the event of any proceedings for voluntary liquidation, dissolutions or other winding up of the Corporation, whether or not involving insolvency or bankruptcy.

(ix) "Subsidiary" of the Corporation means any corporation at least a majority of the shares of the Voting Stock (or the equivalent thereof, in the case of corporations organized outside the United States of America) of which shall at the time be owned, directly or indirectly, by the Corporation or by one or more Subsidiaries or by the Corporation and one or more Subsidiaries.

(x) "Unrestricted Subsidiary" means any Subsidiary other than a Restricted Subsidiary.

(xi) "Voting Stock", as applied to the stock of any corporation, means stock of any class or classes (however designated) having ordinary voting power for the election of a majority of the directors of such corporation, other than stock having such power only by reason of the happening of a contingency.

LIMITATION ON LIENS. So long as any Debentures shall be Outstanding, the Corporation will not itself, and will not permit any Restricted Subsidiary to, incur, issue, assume, guarantee or suffer to exist any indebtedness for money borrowed (indebtedness for money borrowed being hereinafter in this paragraph called "Debt") secured by a Mortgage on any Principal Operating Property of the Corporation or any Restricted Subsidiary, or any shares of stock of or Debt of any Restricted Subsidiary, without effectively providing that the Debentures (together with, if the Corporation shall so determine, any other Debt of the Corporation or such Restricted Subsidiary then existing or thereafter created which is not subordinated Debt) shall be secured equally and ratably with (or, at the option of the Corporation, prior to) such secured Debt so long as such secured Debt shall be so secured, unless, after giving effect thereto, the aggregate amount of all such secured Debt plus all Attributable Debt of the Corporation and its Restricted Subsidiaries in respect of sale and leaseback transactions (as defined in the following paragraph, but excluding leases exempt from the prohibition of the following paragraph by clauses (B) through (D), inclusive, thereof) would not exceed 5% of Consolidated Net Tangible Assets; provided, however, that this paragraph shall not apply to, and there shall be excluded from secured Debt in any computation under this paragraph, Debt secured by:

(A) Mortgages on, and limited to, property of, or on any shares of stock of or Debt of, any corporation existing at the time such corporation becomes a Restricted Subsidiary;

(B) Mortgages in favor of the Corporation or any Restricted Subsidiary;

(C) Mortgages in favor of any governmental body to secure progress, advance or other payments pursuant to any contract or provision of any statute;

(D) (i) if made and continuing in the ordinary course of business, any Mortgage as security for the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money or the securing of Debt, or (ii) any Mortgage with any governmental agency required or permitted to qualify the Corporation or any Restricted Subsidiary to conduct business, to maintain self-insurance or to obtain the benefits of any law pertaining to workmen's compensation, unemployment insurance, old age pensions, social security or similar matters;

(E) Mortgages for taxes, assessments or governmental charges or levies if such taxes, assessments, governmental charges or levies shall not at the time be due and payable, or if the same thereafter can be paid without penalty, or if the same are being contested in good faith by appropriate proceedings;

(F) Mortgages created by or resulting from any litigation or legal proceeding which at the time is currently being contested in good faith by appropriate proceedings; or Mortgages arising out of judgments or awards as to which the time for prosecuting an appeal or proceeding for review has not expired;

(G) Mortgages on, and limited to, property (including leasehold estates), shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation) or to secure the payment of all or any part of the purchase price thereof or construction thereon or to secure any Debt incurred prior to, at the time of, or within 120 days after the later of the acquisition, the completion of construction or the commencement of full operation of such property or within 120 days after the acquisition of such shares or Debt for the purpose of financing all or any part of the purchase price thereof or construction thereon; or

(H) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Mortgage referred to in the foregoing clauses (A) through (G), inclusive, provided, that (i) such extension, renewal or replacement Mortgage shall be limited to all or a part of the same property, shares of stock or Debt that secured the Mortgage extended, renewed or replaced (plus improvements on such property) and (ii) the Debt secured by such Mortgage at such time is not increased.

LIMITATION ON SALE AND LEASEBACK. So long as any Debentures shall be Outstanding, except as hereinafter provided, the Corporation will not itself, and it will not permit any Restricted Subsidiary to, enter into any transaction with any bank, insurance company or other lender or investor, or to which any such bank, company, lender or investor is a party, providing for the leasing by the Corporation or a Restricted Subsidiary of any Principal Operating Property owned at March 1, 1987 which has been or is to be sold or transferred by the Corporation or a Restricted Subsidiary to such bank, company, lender or investor, or to any Person to whom funds have been or are to be advanced by such bank, company, lender or investor on the security of such Principal Operating Property (herein referred to as a "sale and leaseback transaction"). This covenant shall not apply to any sale and leaseback transaction if:

(A) the Corporation or such Restricted Subsidiary could create Debt secured by a Mortgage pursuant to the preceding paragraph, without regard to clauses (A) through (H) thereof, on the Principal Operating Property to be leased in an amount equal to the Attributable Debt with respect to such sale and leaseback transaction without equally and ratably securing the Debentures, or

(B) the Corporation or a Restricted Subsidiary, within 120 days after the sale or transfer shall have been made by the Corporation or by a Restricted Subsidiary, applies an amount equal to the greater of the net proceeds from the sale of the Principal Operating Property leased pursuant to such arrangement or the fair market value of the Principal Operating Property so leased at the time of entering into such arrangement (as determined in any manner approved by the Board of Directors) to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary; provided, that the amount to be applied to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary shall be reduced by (i) the principal amount of any Debentures (or other debentures or notes constituting Senior Funded Debt of th Corporation or Funded Debt of a Restricted Subsidiary) delivered with in 75days after such sale or transfer to the Trustee or other applicable trustee for retirement and cancellation and (ii) the principal amount of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary, other than Funded Debt included under clause (i), voluntarily retired by the Corporation or a Restricted Subsidiary within 75 days after such sale. Notwithstanding the foregoing, no retirement referred to in this clause (B) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision, or

(C) the lease in such sale and leaseback transaction is for a period, including renewals, of no more than three years; or

(D) such arrangement is between the Corporation and a Restricted Subsidiary or between Restricted Subsidiaries.

(11) The following additional Event of Default shall be added for the benefit of the Debentures:

any event of default or events of default as defined in any mortgages, indentures or instruments, under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money of the Corporation or any Subsidiary in excess of $50,000,000 principal amount in the aggregate, whether such indebtedness now exists or shall hereafter be created, which shall happen and shall result in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, and such acceleration or accelerations shall not be rescinded or annulled for a period of ten days after there has been given, by registered or certified mail, to the Corporation by the Trustee or to the Corporation and the Trustee by the Holders of at least 25% in principal amount of the Debentures Outstanding, a written notice specifying such event of default or events of default and requiring the Corporation to cause such acceleration or accelerations to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder.

For all purposes of the Indenture, the foregoing Event of Default shall be deemed to be an Event of Default described in (a), (b) or (c) of Section 6.01 of the Indenture.

(12) The following additional provisions shall be added for the benefit of the Debentures:

LIMITED MANDATORY REDEMPTION OBLIGATION.

(a) DEFINITIONS. For purposes of this provision, the following definitions shall apply:

(i) "Affiliate" of a Person means any other Person controlling, controlled by or under common control with such Person, either solely with respect to the purchase or other acquisition of Common Shares or otherwise.

(ii) "Common Shares" means the shares of Common Stock, $4.00 par value per share, of the Corporation.

(iii) "Designated Event" means any one or more of the following, which occurs subsequent to December 15, 1986:

(A) (1) the Corporation shall consolidate with or merge into any other corporation or convey, transfer or lease all or substantially all of its assets to any Person, or (2) any Person shall consolidate with or merge into the

Corporation pursuant to a transaction in which the Common Shares then outstanding are changed or exchanged;

(B) any person (other than the Corporation or any Subsidiary) shall purchase or otherwise acquire directly or indirectly the beneficial ownership of Common Shares and immediately after such purchase or acquisition such Person and its Affiliates shall directly or indirectly beneficially own in the aggregate twenty percent or more of the Common Shares then outstanding;

(C) the Corporation or any Subsidiary shall purchase or otherwise acquire directly or indirectly in one or more transactions an aggregate of thirty percent or more of the Common Shares outstanding on the date immediately prior to the last such purchase or other acquisition; or

(D) the Corporation shall make any distribution or distributions of cash, property or securities (other than regular periodic cash dividends at a rate which is substantially consistent with past practice, including with respect to increases in dividends, and other than Common Shares or rights to acquire Common Shares) to holders of Common Shares, whether by means of dividend, reclassification, recapitalization or otherwise, having an aggregate, fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive) in excess of an amount equal to (1) thirty percent of the fair market value (based on the closing last sale price of the Common Shares as reported in the Midwest Edition of the WALL STREET JOURNAL) of all of the Corporation's Common Shares outstanding on the date immediately prior to the date of such distribution (or, if there be more than one, the last such distribution), less (2) all amounts expended by the Corporation and its Subsidiaries (the amount expended, if other than in cash, to be determined in good faith by the Board of Directors, whose determination shall be conclusive) to purchase or otherwise acquire Common Shares subsequent to December 15, 1986 and prior to the date of such distribution (or, if there be more than one, the last such distribution).

(iv) "Person" means any Person as defined in the Indenture but shall also include a group within the meaning of Section 13(d)(3) (or any successor provision) of the Securities Exchange Act of 1934.

(v) For purposes of this paragraph (a), "beneficial ownership" shall be determined in accordance with Rule 13d-3 (or any successor rule) of the Securities and Exchange Commission under the Securities and Exchange Act of 1934.

(b) MANDATORY REDEMPTION. If,

(i) a Designated Event shall occur at any time prior to December 15, 1987 or a proposal to consummate a Designated Event shall be publicly announced prior to December 15, 1987 and shall thereafter occur, and

(ii) the Prevailing Rating of the Debentures by Standard & Poor's Corporation or its successor ("S&P") or Moody's Investors Service, Inc. or its successor ("Moody's") is less than BBB- the case of S&P or Baa3 in the case of Moody's (A) on any date within 60 days following the occurrence of such Designated Event or (B) on any date in the event that such Prevailing Rating is the result of a downgrade which the relevant rating agency has publicly announced to have been casued solely by the occurrence (or proposed occurrence) of such Designated Event and related transactions,

then the Corporation (or its successor) shall redeem the Debentures in whole (except as provided in paragraph (d) below), upon not less than 30 days' notice given as provided in the Indenture, at a redemption price of 100% of the principal amount of the Debentures plus accrued interest to the date of redemption (provided that instalments of interest, the stated maturity of which is on or prior to the date of redemption, shall be payable to the Holder of such Debentures, registered as such as the close of business on the relevant record dates, according to the terms and provisions of Section 2.04 and 3.03 of the Indenture). The date of redemption for any redemption required by this paragraph (b) shall be not more than 75 days following the earliest date on which the conditions specified in clause (i) and (ii) above shall have been satisfied. Nothing contained in this paragraph (b) shall require the Corporation to effect more than one redemption of the Debentures, irrespective of any elections made by Holders pursuant to paragraph (d) below.

(c) PREVAILING RATING. The "Prevailing Rating" of the Debentures on any date shall be the rating of the Debentures by S&P or Moody's as of the close of business on such date. The Corporation shall take all reasonable action necessary to enable S&P and Moody's to provide ratings for the Debentures.

(d) ELECTION BY HOLDERS. Any Holder of Debentures may elect not to have redeemed all (but not less than all) the Debentures held by such Holder by delivering written notice of such election to the Corporation (or an agent designated by the Corporation for such purpose in the notice of redemption) by the close of business on the fifteenth day preceding the date of redemption, which notice shall specify the name of such Holder and shall identify the Debentures which are not to be redeemed and their aggregate principal amount. No such notice shall be deemed to have been delivered until such notice is actually received by the Corporation (or its agent).

(13) The provisions of Article Twelve of the Indenture relating to defeasance of Securities shall be applicable to the Debentures, except that Section 12.02 of the Indenture as it relates to the Debentures shall be replaced by the following provision:

SATISFACTION, DISCHARGE AND DEFEASANCE OF DEBENTURES. At the Corporation's option, either (a) the Corporation shall be deemed to have paid and discharged the entire indebtedness on all the Outstanding Debentures and the Trustee, at the expense of the Corporation, shall execute proper instruments acknowledging satisfaction and discharge of such indebtedness, or (b) the Corporation shall cease to be under any obligation to comply with any term, provision, condition or covenant applicable to the Debentures of a series set forth in Section 11.01 of the Indenture, in item 10 of this Resolution (I.E., the covenants regarding "Limitation on Liens" and "Limitation on Sale and Leaseback") and in item 12 of this Resolution (i.e., the provisions regarding "Limited Mandatory Repurchase Obligation") when

(1) with respect to all Outstanding Debentures,

(A) the Corporation shall have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness of all Outstanding Debentures for principal (and premium, if any) and interest to the stated maturity or any redemption date (as contemplated by the penultimate paragraph hereof), as the case may be; or

(B) the Corporation shall have deposited or caused to be deposited with the Trustee as obligations in trust for the purpose such amount of direct noncallable obligations of, or noncallable obligations the payment of principal of and interest on which is fully guaranteed by, the United States of America, or to the payment of which obligations or guarantees the full faith and credit of the United States of America is pledged, maturing as to principal and interest in such amounts and at such times as will, together with the income to accrue thereon (but without reinvesting any proceeds thereof), be sufficient to pay and discharge the entire indebtedness on all Outstanding Debentures for principal (and premium, if any) and interest to the stated maturity or any redemption date (as contemplated by the penultimate paragraph hereof), as the case may be;

(2) the Corporation shall have paid or caused to be paid all other sums payable with respect to the Outstanding Debentures;

(3) if the Debentures are then listed on any national securities exchange, the Corporation shall have delivered to the Trustee an Opinion of Counsel to the effect that the Corporation's exercise of its option under this provision would not cause such Debentures to be delisted;

(4) no Event of Default or event (including such deposit) which with notice or lapse of time would become an Event of Default with respect to the Debentures shall have occurred and be continuing on the date of such deposit;

(5) the Corporation shall have delivered to the Trustee an Opinion of Counsel of nationally recognized tax counsel to the effect that Holders of the Debentures will not recognize income, gain or loss for Federal income tax purposes as a result of the Corporation's exercise of its option under this provision and will be subject to Federal income tax in the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised;

(6) the Corporation shall have delivered to the Trustee an Opinion of Counsel to the effect that the Corporation's exercise of its option under this provision will not cause any violation of the Investment Company Act of 1940, as amended, on the part of the Corporation, the

trust, the trust funds representing the Corporation's deposit or the Trustee; and

(7) the Corporation shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Corporation's exercise of its option under this provision have been complied with.

Any deposits with the Trustee referred to above shall be irrevocable and shall be made under the terms of an escrow trust agreement in form and substance satisfactory to the Trustee. If any Outstanding Debentures are to be redeemed prior to their stated maturity (including through operation of the Sinking Fund applicable to the Debentures), the applicable escrow trust agreement shall provide therefor and the Corporation shall make such arrangements as are satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Corporation.

For purposes of this provision, "discharged" means that the Corporation shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Debentures and to have satisfied all the obligations under this Indenture relating to the Debentures (and the Trustee, at the expense of the Corporation, shall execute proper instruments acknowledging the same), except (x) the rights of Holders of Debentures to receive, from the trust fund described above, payment of the principal (and premium, if any) of and interest on such Debentures when such payments are due, (y) the Corporation's obligations with respect to the Debentures under Sections 2.05, 2.07, 4.02 and 12.03 of the Indenture and (z) the rights, powers, trusts, duties and immunities of the Trustee hereunder.

BE IT FURTHER RESOLVED: That the form of the Debenture attached hereto is in all respects approved, and that the execution and delivery of the Debentures as provided in the Indenture is hereby authorized, with such changes therein as the officer executing the same shall approve, such execution to be conclusive evidence of such approval.

Appendix to Exhibit 4(c)

The last two pages of the original of this exhibit is comprised of a photocopy of a Note Certificate. Such certificate has been omitted from the EDGAR submission and has been filed under Form SE.

FORM OF RESOLUTION CREATING 8% SENIOR NOTES DUE 1997

NOW, THEREFORE, BE IT RESOLVED: That the following resolutions are adopted by the Special Committee effective March 6, 1987.

BE IT FURTHER RESOLVED: That there is hereby approved and established a series of Securities under the Indenture, whose terms shall be as follows:

(1) The series of Securities established hereby to be issued pursuant to the Indenture shall be known and designated as the "8% Senior Notes Due 1997" (the "Notes").

(2) The aggregate principal amount of the Notes is limited to $100,000,000 (except as provided in Section 2.01(2) of the Indenture).

(3) The stated maturity of the principal of the Notes shall be March 15, 1997.

(4) The Notes shall bear interest at the rate of 8% per annum from March 15, 1987 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable on each September 15 and March 15, commencing September 15, 1987 until the principal amount thereof is paid or made available for payment. Each September 15 and March 15 shall be an "Interest Payment Date" for the Notes. The September 1 or March 1 (whether or not a Business Day) next preceding an Interest Payment Date shall be the "Regular Record Date" for the interest payable on such Interest Payment Date.

(5) The principal of and interest on the Notes shall be payable, and the Notes shall be transferable and exchangeable, at the office or agency of the Corporation maintained for that purpose in the City of Chicago, State of Illinois; PROVIDED, HOWEVER, that at the option of the Corporation, payment of interest may be made by check mailed to the address of the Holder entitled thereto as such address shall appear in the Security Register.

(6) The Notes shall not be redeemable at the Corporation's option prior to maturity.

(7) The Notes shall be issued only in denominations of $1,000 and integral multiples thereof.

(8) The Notes shall be issued as Registered Securities only, in fully registered form.

(9) The following additional covenants of the Corporation shall be added for the benefit of the Notes:

DEFINITIONS APPLICABLE TO COVENANTS. The following definitions shall be applicable to the covenants specified below:

(i) "Attributable Debt" means as to any particular lease under which any Person is at the time liable and at any date as of which the amount thereof is to be determined, the total net amount of rent required to be paid by such Person under such lease during the remaining term thereof (including any period for which such lease has been extended or may, at the option of the lessor, be extended), discounted from the respective due dates thereof to such date at a rate per annum equal to one-fourth of one percent above the rate per annum borne by the Notes compounded semi-annually. The net amount of rent required to be paid under any such lease for any such period shall be the aggregate amount of the rent payable by the lessee with respect to such period after excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates and similar charges. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

(ii) "Consolidated Net Tangible Assets" means the aggregate amount of assets (including investments in Unrestricted Subsidiaries, but less applicable reserves and other properly deductible items) after deducting therefrom (a) all liabilities and liability items except Funded Debt, deferred income taxes and stockholders' equity, and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, in each case computed in accordance with generally accepted accounting principles, which under generally accepted accounting principles would appear on a consolidated balance sheet of the Corporation and its Restricted Subsidiaries.

(iii) "Funded Debt" means any indebtedness for money borrowed maturing on, or extendible at the option of the obligor to, a date more than one year from the date of the determination thereof.

(iv) "Mortgage" means and includes any mortgage, pledge, lien, security interest, conditional sale or other title retention agreement or other similar encumbrance.

(v) "Principal Operating Property" means any principal manufacturing plant, or distribution or research facility, and related raw material and other facilities (other than facilities acquired subsequent to the date hereof for the control or abatement of atmospheric pollutants or contaminants, water pollution, noise, odor or other pollution) which on the effective date hereof or at any time subsequent thereto is located in the United States and has been owned and operated by the Corporation or any Subsidiary for more than 90 days, provided, however, that any principal manufacturing plant, or distribution or research facility, and related raw material and other facilities (not theretofore owned by the Corporation or a Subsidiary) owned and operated by a corporation which becomes a Subsidiary after the effective date hereof shall not constitute a Principal Operating Property unless owned and operated by such corporation for more than 90 days after it becomes a Subsidiary; and provided, further, that the Board of Directors may by Board Resolution declare that any plant is not of material importance to the business of the Corporation and its Restricted Subsidiaries as a whole, in which case such plant shall not be deemed to be a Principal Operating Property.

(vi) "Restricted Subsidiary" means as of the date of determination any Subsidiary which owns any Principal Operating Property.

(vii) "Senior Funded Debt" means all Funded Debt, and all renewals, extensions and refundings of Funded Debt, except Subordinated Funded Debt.

(viii) "Subordinated Funded Debt" means (i) the Corporation's 4.85% Subordinated Sinking Fund Debentures due 1991 and (ii) any other unsecured Funded Debt of the Corporation which is expressly made subordinate and junior in rank and right of payment to the Notes in the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the Corporation or to its creditors, as such, or to its property, and in the event of any proceedings for voluntary liquidation, dissolutions or other winding up of the Corporation, whether or not involving insolvency or bankruptcy.

(ix) "Subsidiary" of the Corporation means any corporation at least a majority of the shares of the Voting Stock (or the equivalent thereof, in the case of corporations organized outside the United States of America) of which shall at the time be owned, directly or indirectly, by the Corporation or by one or more Subsidiaries or by the Corporation and one or more Subsidiaries.

(x) "Unrestricted Subsidiary" means any Subsidiary other than a Restricted Subsidiary.

(xi) "Voting Stock", as applied to the stock of any corporation, means stock of any class or classes (however designated) having ordinary voting power for the election of a majority of the directors of such corporation, other than stock having such power only by reason of the happening of a contingency.

LIMITATION ON LIENS. So long as any Notes shall be Outstanding, the Corporation will not itself, and will not permit any Restricted Subsidiary to, incur, issue, assume, guarantee or suffer to exist any indebtedness for money borrowed (indebtedness for money borrowed being hereinafter in this paragraph called "Debt") secured by a Mortgage on any Principal Operating Property of the Corporation or any Restricted Subsidiary, or any shares of stock of or Debt of any Restricted Subsidiary, without effectively providing that the Notes (together with, if the Corporation shall so determine, any other Debt of the Corporation or such Restricted Subsidiary then existing or thereafter created which is not subordinated Debt) shall be secured equally and ratably with (or, at the option of the Corporation, prior to) such secured Debt so long as such secured Debt shall be so secured, unless, after giving effect thereto, the aggregate amount of all such secured Debt plus all Attributable Debt of the Corporation and its Restricted Subsidiaries in respect of sale and leaseback transactions (as defined in the following paragraph, but excluding leases exempt from the prohibition of the following paragraph by clauses (B) through (D), inclusive, thereof) would not exceed 5% of Consolidated Net Tangible Assets; provided, however, that this paragraph shall not apply to, and there shall be excluded from secured Debt in any computation under this paragraph. Debt secured by:

(A) Mortgages on, and limited to, property of, or on any shares of stock of or Debt of, any corporation existing at the time such corporation becomes a Restricted Subsidiary;

(B) Mortgages in favor of the Corporation or any Restricted Subsidiary;

(C) Mortgages in favor of any governmental body to secure progress, advance or other payments pursuant to any contract or provision of any statute;

(D) (i) if made and continuing in the ordinary course of business, any Mortgage as security for the performance of any contract or undertaking not directly or indirectly in connection with the borrowing of money or the securing of Debt, or (ii) any Mortgage with any governmental agency required or permitted to qualify the Corporation or any Restricted Subsidiary to conduct business, to maintain self-insurance or to obtain the benefits of any law pertaining to workmen's compensation, unemployment insurance, old age pensions, social security or similar matters;

(E) Mortgages for taxes, assessments or governmental charges or levies if such taxes, assessments, governmental charges or levies shall not at the time be due and payable, or if the same thereafter can be paid without penalty, or if the same are being contested in good faith by appropriate proceedings;

(F) Mortgages created by or resulting from any litigation or legal proceeding which at the time is currently being contested in good faith by appropriate proceedings; or Mortgages arising out of judgments or awards as to which the time for prosecuting an appeal or proceeding for review has not expired;

(G) Mortgages on, and limited to, property (including leasehold estates), shares of stock or Debt existing at the time of acquisition thereof (including acquisition through merger or consolidation) or to secure the payment of all or any part of the purchase price thereof or construction thereon or to secure any Debt incurred prior to, at the time of, or within 120 days after the later of the acquisition, the completion of construction or the commencement of full operation of such property or within 120 days after the acquisition of such shares or Debt for the purpose of financing all or any part of the purchase price thereof or construction thereon; or

(H) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Mortgage referred to in the foregoing clauses (A) through (G), inclusive, provided, that (i) such extension, renewal or replacement Mortgage shall be limited to all or a part of the same property, shares of stock or Debt that secured the Mortgage extended, renewed or replaced (plus improvements on such property) and (ii) the Debt secured by such Mortgage at such time is not increased.

LIMITATION ON SALE AND LEASEBACK. So long as any Notes shall be Outstanding, except as hereinafter provided, the Corporation will not itself, and it will not permit any Restricted Subsidiary to, enter into any transaction with any bank, insurance company or other lender or investor, or to which any such bank, company, lender or investor is a party, providing for the leasing by the Corporation or a Restricted Subsidiary of any Principal Operating Property owned at March 15, 1987 which has been or is to be sold or transferred by the Corporation or a Restricted Subsidiary to such bank, company, lender or investor, or to any Person to whom funds have been or are to be advanced by such bank, company, lender or investor on the security of such Principal Operating Property (herein referred to as a "sale and leaseback transaction"). This covenant shall not apply to any sale and leaseback transaction if:

(A) the Corporation or such Restricted Subsidiary could create Debt secured by a Mortgage pursuant to the preceding paragraph, without regard to clauses (A) through (H) thereof, on the Principal Operating Property to be leased in an amount equal to the Attributable Debt with respect to such sale and leaseback transaction without equally and ratably securing the Notes, or

(B) the Corporation or a Restricted Subsidiary, within 120 days after the sale or transfer shall have been made by the Corporation or by a Restricted Subsidiary, applies an amount equal to the greater of the net proceeds from the sale of the Principal Operating Property leased pursuant to such arrangement or the fair market value of the Principal Operating Property so leased at the time of entering into such arrangement (as determined in any manner approved by the Board of Directors) to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary; provided, that the amount to be applied to the retirement of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary shall be reduced by (i) the principal amount of any Notes (or other debentures or notes constituting Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary) delivered within 75 days after such sale or transfer to the Trustee or other applicable trustee for retirement and cancellation and (ii) the principal amount of Senior Funded Debt of the Corporation or Funded Debt of a Restricted Subsidiary, other than Funded Debt included under clause (i), voluntarily retired by the Corporation or a Restricted Subsidiary within 75 days after such sale. Notwithstanding the foregoing, no retirement referred to in this clause (B) may be effected by payment at maturity or pursuant to any mandatory sinking fund payment or any mandatory prepayment provision, or

(C) the lease in such sale and leaseback transaction is for a period, including renewals, of no more than three years, or

(D) such arrangement is between the Corporation and a Restricted Subsidiary or between Restricted Subsidiaries.

(10) The following additional Event of Default shall be added for the benefit of the Notes:

any event of default or events of default as defined in any mortgages, indentures or instruments, under which there may be issued, or by which there may be secured or evidenced, any indebtedness for borrowed money of the Corporation or any Subsidiary in excess of $50,000,000 principal amount in the aggregate, whether such indebtedness now exists or shall hereafter be created, which shall happen and shall result in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, and such acceleration or accelerations shall not be rescinded or annulled for a period of ten days after there has been given, by registered or certified mail, to the Corporation by the Trustee or to the Corporation and the Trustee by the Holders of at least 25% in principal amount of the Notes Outstanding, a written notice specifying such event of default or events of default and requiring the Corporation to cause such acceleration or accelerations to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder.

For all purposes of the Indenture, the foregoing Event of Default shall be deemed to be an Event of Default described in (a), (b) or (c) of Section 6.01 of the Indenture.

(11) The following additional provisions shall be added for the benefit of the Notes:

LIMITED MANDATORY REDEMPTION OBLIGATION.

(a) DEFINITIONS. For purposes of this provision, the following definitions shall apply:

(i) "Affiliate" of a Person means any other Person controlling, controlled by or under common control with such Person, either solely with respect to the purchase or other acquisition of Common Shares or otherwise.

(ii) "Common Shares" means the shares of Common Stock, $4.00 par value per share, of the Corporation.

(iii) "Designated Event" means any one or more of the following, which occurs subsequent to December 15, 1986:

(A) (1) the Corporation shall consolidate with or merge into any other corporation or convey, transfer or lease all or substantially all of its assets to any Person, or (2) any Person shall consolidate with or merge into the Corporation pursuant to a transaction in which the Common Shares then outstanding are changed or exchanged;

(B) any Person (other than the Corporation or any Subsidiary) shall purchase or otherwise acquire directly or indirectly the beneficial ownership of Common Shares and immediately after such purchase or acquisition such Person and its Affiliates shall directly or indirectly beneficially own in the aggregate twenty percent or more of the Common Shares then outstanding;

(C) the Corporation or any Subsidiary shall purchase or otherwise acquire directly or indirectly in one or more transactions an aggregate of thirty percent or more of the Common Shares outstanding on the date immediately prior to the last such purchase or other acquisition; or

(D) the Corporation shall make any distribution or distributions of cash, property or securities (other than regular periodic cash dividends at a rate which is substantially consistent with past practice, including with respect to increases in dividends, and other than Common Shares or rights to acquire Common Shares) to holders of Common Shares, whether by means of dividend, reclassification, recapitalization or otherwise.

having an aggregate, fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive) in excess of an amount equal to (1) thirty percent of the fair market value (based on the closing last sale price of the Common Shares as reported in the Midwest Edition of the WALL STREET JOURNAL) of all of the Corporation's Common Shares outstanding on the date immediately prior to the date of such distribution (or, if there be more than one, the last such distribution), less (2) all amounts expended by the Corporation and its Subsidiaries (the amount expended, if other than in cash, to be determined in good faith by the Board of Directors, whose determination shall be conclusive) to purchase or otherwise acquire Common Shares subsequent to December 15, 1986 and prior to the date of such distribution (or, if there be more than one, the last such distribution).

(iv) "Person" means any Person as defined in the Indenture but shall also include a group within the meaning of Section 13(d)(3) (or any successor provision) of the Securities Exchange Act of 1934.

(v) For purposes of this paragraph (a), "beneficial ownership" shall be determined in accordance with Rule 13d-3 (or any successor rule) of the Securities and Exchange Commission under the Securities and Exchange Act of 1934.

(b) MANDATORY REDEMPTION. If,

(i) a Designated Event shall occur at any time prior to December 15, 1987 or a proposal to consummate a Designated Event shall be publicly announced prior to December 15, 1987 and shall thereafter occur, and

(ii) the Prevailing Rating of the Notes by Standard & Poor's Corporation or its successor ("S&P") or Moody's Investors Service, Inc. or its successor ("Moody's") is less than BBB- the case of S&P or Baa3 in the case of Moody's (A) on any date within 60 days following the occurrence of such Designated Event or (B) on any date in the event that such Prevailing Rating is the result of a downgrade which the relevant rating agency has publicly announced to have been casued solely by the occurrence (or proposed occurrence) of such Designated Event and related transactions, then the Corporation (or its successor) shall redeem the Notes in whole (except as provided in paragraph (d) below), upon not less than 30 days' notice given as provided in the Indenture, at a redemption price of 100% of the principal amount of the Notes plus accrued interest to the date of redemption (provided that instalments of interest, the stated maturity of which is on or prior to the date of redemption, shall be payable to the Holder of such Notes, registered as such as the close of business on the relevant record dates, according to the terms and provisions of Section 2.04 and 3.03 of the Indenture). The date of redemption for any redemption required by this paragraph (b) shall be not more than 75 days following the earliest date on which the conditions specified in clause (i) and (ii) above shall have been satisfied. Nothing contained in this paragraph (b) shall require the Corporation to effect more than one redemption of the Notes, irrespective of any elections made by Holders pursuant to paragraph (d) below.

(c) PREVAILING RATING. The "Prevailing Rating" of the Notes on any date shall be the rating of the Notes by S&P or Moody's as of the close of business on such date. The Corporation shall take all reasonable action necessary to enable S&P and Moody's to provide ratings for the Notes.

(d) ELECTION BY HOLDERS. Any Holder of Notes may elect not to have redeemed all (but not less than all) the Notes held by such Holder by delivering written notice of such election to the Corporation (or an agent designated by the Corporation for such purpose in the notice of redemption) by the close of business on the fifteenth day preceding the date of redemption, which notice shall specify the name of such Holder and shall identify the Notes which are not to be redeemed and their aggregate principal amount. No such notice shall be deemed to have been delivered until such notice is actually received by the Corporation (or its agent).

(12) The provisions of Article Twelve of the Indenture relating to defeasance of Securities shall be applicable to the Notes, except that Section 12.02 of the Indenture as it relates to the Notes shall be replaced by the following provision:

SATISFACTION, DISCHARGE AND DEFEASANCE OF NOTES. At the Corporation's option, either (a) the Corporation shall be deemed to have paid and discharged the entire indebtedness on all the Outstanding Notes and the Trustee, at the expense of the corporation, shall execute proper instruments acknowledging satisfaction and discharge of such indebtedness, or (b) the Corporation shall cease to be under any obligation to comply with any term, provision, condition or covenant applicable to the Notes of a series set forth in Section 11.01 of the Indenture, in item 9 of this Resolution (I.E., the covenants regarding "Limitation on Liens" and "Limitation on Sale and Leaseback") and in item 11 of this Resolution (I.E., the provisions regarding "Limited Mandatory Repurchase Obligation") when

(1) with respect to all Outstanding Notes,

(A) the Corporation shall have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness of all Outstanding Notes for principal and interest to the stated maturity or any redemption date (as contemplated by the penultimate paragraph hereof), as the case may be; or

(B) the Corporation shall have deposited or caused to be deposited with the Trustee as obligations in trust for the purpose such amount of direct noncallable obligations of, or noncallable obligations the payment of principal of and interest on which is fully guaranteed by, the United States of America, or to the payment of which obligations or guarantees the full faith and credit of the United States of America is pledged, maturing as to principal and interest in such amounts and at such times as will, together with the income to accrue thereon (but without reinvesting any proceeds thereof), be sufficient to pay and discharge the entire indebtedness on all Outstanding Notes for principal and interest to the stated maturity or any redemption date (as contemplated by the penultimate paragraph hereof), as the case may be;

(2) the Corporation shall have paid or caused to be paid all other sums payable with respect to the Outstanding Notes;

(3) if the Notes are then listed on any national securities exchange, the Corporation shall have delivered to the Trustee an Opinion of Counsel to the effect that the Corporation's exercise of its option under this provision would not cause such Notes to be delisted;

(4) no Event of Default or event (including such deposit) which with notice or lapse of time would become an Event of Default with respect to the Notes shall have occurred and be continuing on the date of such deposit;

(5) the Corporation shall have delivered to the Trustee an Opinion of Counsel of nationally recognized tax counsel to the effect that Holders of the Notes will not recognize income, gain or loss for Federal income tax purposes as a result of the Corporation's exercise of its option under this provision and will be subject to Federal income tax in the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised;

(6) the Corporation shall have delivered to the Trustee an Opinion of Counsel to the effect that the Corporation's exercise of its option under this provision will not cause any violation of the Investment Company Act of 1940, as amended, on the part of the Corporation, the trust, the trust funds representing the Corporation's deposit or the Trustee; and

(7) the Corporation shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Corporation's exercise of its option under this provision have been complied with.

Any deposits with the Trustee referred to above shall be irrevocable and shall be made under the terms of an escrow trust agreement in form and substance satisfactory to the Trustee. If any Outstanding Notes are to be redeemed prior to their stated maturity, the applicable escrow trust agreement shall provide therefor and the Corporation shall make such arrangements as are satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Corporation.

For purposes of this provision, "discharged" means that the Corporation shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Notes and to have satisfied all the obligations under this Indenture relating to the notes (and the Trustee, at the expense of the Corporation, shall execute proper instruments acknowledging the same), except (x) the rights of Holders of Notes to receive, from the trust fund described above, payment of the principal of and interest on such Notes when such payments are due, (y) the Corporation's obligations with respect to the Notes under Sections 2.05, 2.07, 4.02 and 12.03 of the Indenture and (z) the rights, powers, trusts, duties and immunities of the Trustee hereunder.

BE IT FURTHER RESOLVED: That the form of the Note attached hereto is in all respects approved, and that the execution and delivery of the Notes as provided in the Indenture is hereby authorized, with such changes therein as the officer executing the same shall approve, such execution to be conclusive evidence of such approval.

Appendix to Exhibit 4(d)

The last two pages of the original of this exhibit is comprised of a photocopy of a Note Certificate. Such certificate has been omitted from the EDGAR submission and has been filed under Form SE.

EXHIBIT 11

COMPUTATION OF EARNINGS/(LOSS) PER COMMON SHARE
(Dollar amounts in millions except per share data)

PRIMARY EARNINGS/(LOSS) PER SHARE OF COMMON STOCK

	MAY 7 THROUGH DECEMBER 31, 1993
Average common shares outstanding.	37,157,672
Loss before extraordinary loss	$ (108)
Primary loss per common share before extraordinary loss. .	(2.90)
Extraordinary loss, net of taxes	(21)
Primary loss per common share from extraordinary loss. . .	(0.56)
Net loss available to common stockholders.	(129)
Primary net loss per common share.	(3.46)

COMPUTATION OF EARNINGS/(LOSS) PER COMMON SHARE ON A FULLY-DILUTED BASIS IS OMITTED BECAUSE THE OPTIONS AND WARRANTS HAVE AN ANTIDILUTIVE EFFECT. INFORMATION IS OMITTED FOR PERIODS PRIOR TO MAY 7, 1993 BECAUSE, DUE TO THE RESTRUCTURING AND IMPLEMENTATION OF FRESH START REPORTING, PER SHARE DATA IS NOT MEANINGFUL.

EXHIBIT 21

SUBSIDIARIES

The companies listed below are the primary subsidiaries of the Corporation. The financial data for these subsidiaries, as well as for other subsidiaries which are not considered to be significant and are therefore excluded from this exhibit, comprised the Corporation's consolidated financial statements.

Name of Company	Organized Under Laws of
DOMESTIC:	
United States Gypsum Company(a).	Delaware
USG Interiors, Inc.(a)	Delaware
L&W Supply Corporation (a)(b).	Delaware
USG International, Ltd..	Delaware
USG Foreign Investments, Ltd..	Delaware
USG Interiors International, Inc..	Ohio
La Mirada Products Co., Inc.	Ohio
USG Foreign Sales Corporation.	Virgin Islands
Gypsum Engineering Company	Delaware
INTERNATIONAL:	
CGC Inc.(a).	Canada
USG Canadian Mining Ltd.	Ontario
Gypsum Transportation Limited.	Bermuda
Yeso Panamericano, S.A. de C.V..	Mexico
CIKSA, S.A. de C.V..	Mexico
USG Interiors (Donn) S.A..	Belgium
Donn Products GmbH	Germany
Donn Products (U.K.), Ltd.	United Kingdom
Donn Products France S.A..	France
USG Netherlands B.V.	Netherlands
USG Interiors (Europe) S.A..	Belgium
USG Interiors Coordination Centre S.A. . . .	Belgium
USG Interiors Pacific Ltd.	New Zealand
USG Interiors Australia Pty. Ltd..	Australia
USG Interiors (Far East) SDN BHD	Malaysia
Alabaster Engineering (Nederland) B.V. . . .	Netherlands
Red Top Technology (Nederland) B.V..	Netherlands

(A) ACCOUNTS FOR MATERIAL REVENUES

(B) AS OF DECEMBER 31, 1993, L&W SUPPLY CONDUCTED ITS BUSINESS OUT OF 131 LOCATIONS IN 34 STATES USING VARIOUS NAMES REGISTERED UNDER APPLICABLE ASSUMED BUSINESS NAME STATUTES.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS
WITH RESPECT TO FORM S-8

As independent public accountants, we hereby consent to the incorporation by reference of our report, dated January 31, 1994, included in this Form 10-K for the year ended December 31, 1993 into the Corporation's previously filed Registration Statements Nos. 33-22581, as amended, 33-22930, 33-36303 and 33-67554 on Form S-8.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
February 24, 1994

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Richard H. Fleming, John E. Malone and Raymond T. Belz and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the year ended December 31, 1993 of USG Corporation, and any of all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This power of attorney has been signed as of February 9, 1994 by the following persons.

\s\Eugene B. Connolly Eugene B. Connolly Chairman of the Board, Chief Executive Officer, and Director	\s\David W. Fox David W. Fox Director
\s\Anthony J. Falvo, Jr. Anthony J. Falvo, Jr. Vice Chairman and Director	\s\Philip C. Jackson, Jr. Philip C. Jackson, Jr. Director
\s\Robert L. Barnett Robert L. Barnett Director	\s\Marvin E. Lesser Marvin E. Lesser Director
\s\Keith A. Brown Keith A. Brown Director	John B. Schwemm Director
\s\W. H. Clark W. H. Clark Director	Judith A. Sprieser Director
\s\James C. Cotting James C. Cotting Director	\s\Alan G. Turner Alan G. Turner Director
\s\Lawrence M. Crutcher Lawrence M. Crutcher Director	\s\Barry L. Zubrow Barry L. Zubrow Director
\s\Wade Fetzer III Wade Fetzer III Director	