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, 1995

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
8.5% Senior Notes, Due 2005	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, 1996, the aggregate market value of USG Corporation common stock held by nonaffiliates (based upon the New York Stock Exchange ("NYSE") closing prices) was approximately $1,344,772,000.

As of January 31, 1996, 45,478,550 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Documents Incorporated by Reference:

1. Portions of the Corporation's 1995 Annual Report to Stockholders are incorporated by reference in Parts I, II and IV of this Form 10-K Report.

2. The Corporation's definitive Proxy Statement for use in connection with the Annual Meeting of Stockholders to be held on May 8, 1996 are incorporated by reference in Part III of this Form 10-K Report.

3. A list of exhibits incorporated by reference is presented in this Form 10-K Report beginning on page 13.

TABLE OF CONTENTS

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 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 primarily to finance the 1988 Recapitalization. As a result of high leverage and a severe cyclical downturn in its construction-based markets, the Corporation initiated a comprehensive restructuring of its debt (the "Restructuring") that was completed on May 6, 1993, through implementation of a "prepackaged" plan of reorganization under United States bankruptcy law. In accordance with the prepackaged plan, $1.4 billion of debt and accrued interest was converted into equity and interest expense was significantly reduced. 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." Due to the Restructuring and implementation of fresh start accounting, financial statements subsequent to May 6, 1993, are not comparable to financial statements prior to that date.

Since the Restructuring, the Corporation has completed several refinancing plans. In the first quarter of 1994, the Corporation implemented a refinancing that included (i) a public offering of common stock yielding net proceeds of $224 million (ii) the issuance of $150 million of 9.25% senior notes due 2001 in exchange for cash and 8.0% senior notes due 1996 and 1997 and (iii) an amendment to the Corporation's bank credit agreement. Proceeds of this refinancing were used primarily to reduce debt.

In the third quarter of 1995, the Corporation completed a refinancing that included: (i) the establishment of a new seven-year revolving credit facility to replace the existing bank credit agreement (ii) the sale of $150 million aggregate principal amount of 8.5% senior notes due 2005 and (iii) the redemption of the Corporation's remaining $268 million principal amount of 10.25% senior notes due 2002 using a combination of proceeds from the sale of the 8.5% senior notes, borrowings under the new revolving credit facility and cash on hand. As a result of this refinancing and other debt repayments in 1995, the Corporation reduced its principal amount of total debt to $926 million as of December 31, 1995, from $1,149 million as of December 31, 1994.

(b) Financial Information About Industry Segments

Financial information and other related disclosure pertaining to the Corporation's industry segments set forth under "Notes to Financial Statements - - Note 22. Industry and Geographic Segments" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

(c) Narrative Description of Business

Through its subsidiaries, USG is a leading manufacturer of building materials producing a wide range of products for use in new residential and nonresidential construction and repair and remodel, as well as products used in certain industrial processes. USG's operations are organized into two core businesses: North American Gypsum and Worldwide Ceilings.

North American Gypsum

Business

North American Gypsum, which manufactures and markets gypsum and related products in the United States, Canada and Mexico, includes U.S. Gypsum and L&W Supply Corporation ("L&W Supply") in the United States, the gypsum business of the Corporation's 76%-owned subsidiary, CGC Inc. ("CGC"), in Canada and Yeso Panamericano S.A. de C.V. in Mexico. 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 1995. L&W Supply is the country's largest distributor of wallboard and related products and in 1995 distributed approximately 9% of all gypsum wallboard in the United States (including approximately 24% of U.S. Gypsum's wallboard production).

Products

North American Gypsum 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-dampening 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 provides 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, sound-dampening 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 for agricultural and industrial customers to use in a number of applications, including soil conditioning, road repair, fireproofing and ceramics.

Manufacturing

North American Gypsum's products are manufactured at 43 plants located throughout the United States, eastern Canada and in central Mexico. In 1995, the Corporation completed incremental wallboard capacity expansions at nine strategically located plants in the United States that increased U.S. Gypsum's wallboard capacity by approximately 600 million square feet. The Corporation also increased its capital spending program to maintain and to enhance its control of manufacturing costs.

Gypsum rock is mined or quarried at 14 company-owned locations in the United States and Canada. In 1995, these facilities provided approximately 93% of the gypsum used by the Corporation's plants in North America. Certain plants purchase synthetic gypsum or natural gypsum rock from sources other than company-owned mines and quarries. Such purchases accounted for approximately 7% of gypsum used in the Corporation's North American plants. 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 225 million tons, of which approximately 70% are located in the United States and 30% in Canada. Additional reserves of approximately 153 million tons are found 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 9.8 million tons.

The Corporation owns and operates seven paper mills located across the United States. 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.

The Corporation maintains a research and development facility in Libertyville, Ill., which conducts fire, structural and acoustical 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 wallboard, cement board and ceiling tile, are based. Related technologies are those pertaining to joint compounds and textures for wallboard finishing, specialty plaster products for both construction and industrial applications and specialty coatings for both interior and exterior applications.

Marketing and Distribution

Distribution is carried out through L&W Supply, home improvement centers 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. Based on the Corporation's estimates using publicly available data, internal surveys, and gypsum wallboard shipment data from the Gypsum Association, management estimates that during 1995, about 46% of total industry volume demand for gypsum wallboard was generated by new residential construction activity, 37% of volume demand was generated by residential and nonresidential repair and remodel activity, 10% of volume demand was generated by new nonresidential construction activity and the remaining 7% of volume demand was generated by other activities such as exports and temporary construction.

L&W Supply, which was organized in 1971 by U.S. Gypsum, currently has 156 distribution centers in 34 states. It is a service-oriented organization that stocks a variety of construction materials and delivers less than truckload quantities of construction materials to a job site and places them in areas where work is being done, thereby reducing or eliminating the need for handling by contractors. Although L&W Supply specializes in distribution of gypsum wallboard (which accounts for approximately 49% of its total net sales), joint compound and other products manufactured primarily by U.S. Gypsum, it also distributes products manufactured by USG Interiors such as acoustical ceiling tile and ceiling grid and products of other manufacturers, including drywall metal, insulation, roofing products and accessories. L&W Supply leases approximately 85% of its facilities from third parties. Usually, initial leases run from three to five years with a five-year renewal option.

Competition

The Corporation competes in North America as the largest of 18 producers of gypsum wallboard products and in 1995 accounted for approximately one-third of total gypsum wallboard sales in the United States. In 1995, U.S. Gypsum shipped 7.6 billion square feet of wallboard, compared with total domestic industry shipments of 23.8 billion square feet. Principal competitors in the United States are: National Gypsum Company, Georgia-Pacific Corporation, Domtar, Inc., The Celotex Corporation, which has operated under Chapter 11 of the Bankruptcy Code since 1990, and several smaller, regional competitors. Major competitors in Canada include Domtar, Inc. and Westroc Industries Ltd. In Mexico, the Corporation's major competitor is Panel Rey. In late 1995, Georgia-Pacific Corporation announced that it agreed to purchase the gypsum business of Domtar, Inc. According to the announcement, completion of the acquisition is targeted for the first quarter of 1996.

L&W Supply's largest 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, CSR/GDMA in the southeast (primarily in Florida) and Strober Building Supply in the northeastern United States. L&W Supply's many local competitors include lumber dealers, hardware stores, home improvement centers, and acoustical tile distributors and manufacturers.

Worldwide Ceilings

Business

Worldwide Ceilings, which manufactures and markets interior systems products worldwide, includes USG Interiors, the international interior systems businesses managed as USG International ("USG International") and the interior systems business of CGC. USG Interiors is a leading supplier of interior ceiling and wall products used primarily in commercial applications. In 1995, USG Interiors was the largest producer of ceiling grid and the second largest producer of ceiling tile in the United States, accounting for approximately one-half and approximately one-third of total domestic sales of such products, respectively.

Products

Worldwide Ceilings manufactures and markets ceiling grid, ceiling tile, wall systems, mineral fiber insulation and soundproofing products and, in Europe and the Asia/Pacific region, access floor systems. 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. USG Interiors' significant trade names include the "AURATONE" and "ACOUSTONE" 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 that 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 in Europe and the Asia/Pacific region that permits 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.

Manufacturing

Worldwide Ceilings' products are manufactured at 21 plants located in North America, Europe, New Zealand and Malaysia, including 5 ceiling tile plants and 9 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 Worldwide Ceilings' 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. In 1995, the Corporation initiated a major expansion of its ceiling tile manufacturing capacity to meet increasing worldwide demand. This expansion is expected to be completed in 1996.

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, Ill., and at its "Solutions Center"SM in Chicago.

Marketing and Distribution

Worldwide Ceilings' 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. In recent years, Worldwide Ceilings has increased its emphasis on the retail market.

Competition

The Corporation estimates that it accounts for approximately one-third of total acoustical ceiling tile sales in the United States. Principal global competitors include Armstrong World Industries, Inc. (the largest manufacturer), OWA Faserplattenwerk GmbH (Odenwald) and The Celotex Corporation. The Corporation estimates that it is the world's largest manufacturer of ceiling grid. USG's most significant competitor in ceiling grid is Chicago Metallic Corporation, which participates in the European, Far East and U.S. markets. Other principal competitors in ceiling grid include W.A.V.E. (a joint venture of Armstrong World Industries, Inc. and Worthington Industries/National Rolling Mills).

Other Information

The Corporation's plants are substantial users of thermal energy. Five major fuel types are used in a mix consisting of 79% natural gas, 10% electricity, 5% oil, 4% coke and 2% purchased hot air. With few exceptions, plants that use natural gas are equipped with fuel stand-by systems, principally oil. Primary fuel supplies have been adequate and no curtailment of plant operations has resulted from insufficient supplies. Supplies are likely to remain sufficient for projected requirements. Energy price swap agreements are used by the Corporation to hedge the cost of certain purchased fuel.

Neither industry segment has any special working capital requirements or is materially dependent on a single customer or a few customers on a regular basis. No single customer of the Corporation accounted for more than 10% of the Corporation's 1995 or 1994 consolidated net sales. Because orders are filled upon receipt, neither industry segment has any significant backlog.

Loss of one or more of the patents or licenses held by the Corporation would not have a major impact on the Corporation's business or its ability to continue operations. No material part of any of the Corporation's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the government.

All of the Corporation's products regularly require improvement to remain competitive. The Corporation also develops and produces comprehensive systems employing several of its products. In order to maintain its high standards and remain a leader in the building materials industry, the Corporation performs on an on-going basis extensive research and development activities and makes the necessary capital expenditures to maintain production facilities in sufficient operating condition.

One of the Corporation's subsidiaries, U.S. Gypsum, is a defendant in asbestos lawsuits alleging both property damage and personal injury. Virtually all costs of the Personal Injury Cases are being paid by insurance. However, certain of U.S. Gypsum's insurance carriers continue to contest coverage for the Property Damage Cases, although U.S. Gypsum believes that substantial coverage exists, and the trial court and an appellate court in U.S. Gypsum's Coverage Action have so ruled. 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. Additional information pertaining to the Corporation's legal proceedings, including definitions of terms in initial capital letters, set forth under" Notes to Financial Statements - Note 21. Litigation" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

Financial information and other related disclosure pertaining to the Corporation's foreign and domestic operations and export sales set forth under "Notes to Financial Statements - Note 22. Industry and Geographic Segments" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

Item 2. PROPERTIES

The Corporation's plants, mines, quarries, transport ships and other facilities are located in North America, Europe, 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):

North American Gypsum

Gypsum Wallboard and Other Gypsum Products

United States		Canada
Baltimore, Md.	Norfolk, Va.	Hagersville, Ontario
Boston (Charlestown), Mass.	Oakfield, N.Y.	Montreal, Quebec
Detroit (River Rouge), Mich.	Plaster City, Calif.	St. Jerome, Quebec (currently idle)
East Chicago, Ind.	Plasterco (Saltville), Va.	
Empire, Nev.	Santa Fe Springs, Calif.	
Fort Dodge, Iowa	Shoals, Ind.	
Fremont, Calif.	Sigurd, Utah	Mexico
Galena Park, Texas	Southard, Okla.	Puebla, Puebla
Gypsum, Ohio	Sperry, Iowa	
Jacksonville, Fla.	Stony Point, N.Y.	
New Orleans, La.	Sweetwater, Texas	

Joint Compound

Surface preparation and joint treatment products are produced in plants located at Chamblee, Ga.; Dallas, Texas; East Chicago, Ind.; Fort Dodge, Iowa; Gypsum, Ohio; Jacksonville, Fla.; Port Reading, N.J. (leased); Sigurd, Utah; Tacoma, Wash. (leased); Torrance, Calif.; Hagersville, Ontario, Canada; Montreal, Quebec, Canada; Puebla, Mexico; and Port Klang, Malaysia (leased).

Gypsum Rock

Gypsum rock is mined or quarried at Alabaster (Tawas City), Mich.; Empire, Nev.; Fort Dodge, Iowa; Oakfield, N.Y.; Plaster City, Calif.; Plasterco (Saltville), Va.; Shoals, Ind.; Sigurd, Utah; Southard, Okla.; Sperry, Iowa; Sweetwater, Texas; Hagersville, Ontario, Canada; Little Narrows, Nova Scotia, Canada; and Windsor, Nova Scotia, Canada. Synthetic gypsum is processed at Belledune, New Brunswick, Canada.

Paper

Paper for gypsum wallboard is manufactured at Clark, N.J.; Galena Park, Texas; Gypsum, Ohio; Jacksonville, Fla.; North Kansas City, Mo.; Oakfield, N.Y.; and South Gate, Calif.

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.

Other Products

A mica-processing plant is located at Spruce Pine, N.C.; perlite ore is produced at Grants, N.M.; and drywall metal products are manufactured at Medina, Ohio. Metal lath, plaster and drywall accessories and light gauge steel framing products are manufactured at Puebla, Mexico. Various other products are manufactured at La Mirada, Calif. (adhesives and finishes); and New Orleans, La. (lime products).

Worldwide Ceilings

Ceiling Tile

Acoustical ceiling tile and panels are manufactured at Cloquet, Minn.; Greenville, Miss.; Walworth, Wis.; San Juan Ixhuatepec, Mexico; and Aubange, Belgium.

Ceiling Grid

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

USG International is establishing a new ceiling grid plant in Taiwan that is expected to begin production in the first half of 1996.

Other Products

Access floor systems products are manufactured at Dreux, France; Peterlee, England (leased); and Port Klang, Malaysia (leased). Mineral fiber products are manufactured at Birmingham, Ala.; Red Wing, Minn.; Tacoma, Wash.; Wabash, Ind.; and Walworth, Wis. Wall system products are manufactured at Medina, Ohio (leased). Drywall metal products are manufactured at Prestice, Czech Republic (leased). An insulation plant at Weston, Ontario, Canada was closed on December 31, 1995.

On January 16, 1996, the Corporation announced its intention to divest its insulation manufacturing business in the United States.

Item 3. LEGAL PROCEEDINGS

Information pertaining to the Corporation's legal proceedings set forth under "Notes to Financial Statements - Note 21. Litigation" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

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 1995.

PART II

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

Information with respect to the principal market on which the Corporation's common stock is traded, the range of high and low market prices and number of stockholders of record set forth under "Selected Quarterly Financial Data" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

There have been no dividends declared since the third quarter of 1988. Bank credit agreements and other debt instruments have previously prohibited or restricted the payment of cash dividends. Although currently permitted to some extent under the Corporation's existing debt agreements, the Corporation has announced an intention not to resume payment of dividends until it has achieved investment grade status with respect to its senior public debt issues.

Item 6. SELECTED FINANCIAL DATA

Information with respect to selected financial data set forth under "Comparative Five-Year Summary" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

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

"Management's Discussion and Analysis of Results of Operations and Financial Condition" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to financial statements and supplementary data set forth under "Consolidated Statement of Earnings," "Consolidated Balance Sheet," "Consolidated Statement of Cash Flows," "Notes to Financial Statements" and "Report of Independent Public Accountants" of the Corporation's 1995 Annual Report to Stockholders is incorporated herein by reference.

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

Information about directors has been omitted from this report as it will be filed with the Securities and Exchange Commission (the "SEC") in a definitive proxy statement pursuant to Regulation 14A, which definitive proxy statement is incorporated herein by reference.

Executive Officers of the Registrant (as of February 1, 1996)

Name, Age and Present Position	Prior Business Experience in Past Five Years	Has Held Present Position Since
Eugene B. Connolly, 63 Chairman of the Board	Chairman of the Board and Chief Executive Officer to March 1993; Chairman of the Board, President and Chief Executive Officer to January 1994; Chairman of the Board and Chief Executive Officer to January, 1996.	January 1996
William C. Foote, 44 President and Chief Executive Officer	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 to January 1994; President and Chief Executive Officer, USG Interiors, Inc. from January 1993 to January 1994; President and Chief Operating Officer from January 1994 to January 1996.	January 1996
J. Bradford James, 49 Executive Vice President-International Development and Distribution	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, USG Corporation to January 1994; Vice President, USG Corporation, President and Chief Executive Officer, USG Interiors, Inc. to January 1995; Group Vice President, Worldwide Ceilings & International, USG Corporation, President and Chief Executive Officer, USG Interiors, Inc. to October 1995.	October 1995
P. Jack O'Bryan, 60 Executive Vice President - Worldwide Ceilings; President and Chief Executive Officer, USG Interiors, Inc.	President and Chief Executive Officer, United States Gypsum Company to January 1993; Senior Vice President and Chief Technology Officer, USG Corporation to August 1994; Senior Vice President - Worldwide Manufacturing and Technology to October 1995.	October 1995
Donald E. Roller, 58 Executive Vice President - North American Gypsum; President and Chief Executive Officer, United States Gypsum Company	President and Chief Executive Officer, USG Interiors, Inc. to January 1993; Vice President, USG Corporation, President and Chief Executive Officer, United States Gypsum Company to January 1995. Group Vice President, North American Gypsum; President and Chief Executive Officer, United States Gypsum Company to October 1995.	October 1995
Richard H. Fleming, 48 Senior Vice President and Chief Financial Officer	Director, Corporate Finance, to January 1991; Vice President and Treasurer to January 1994; Vice President and Chief Financial Officer to January 1995.	January 1995
Arthur G. Leisten, 54 Senior Vice President and General Counsel	Senior Vice President and General Counsel to March 1993; Senior Vice President, General Counsel and Secretary to February 1994.	February 1994
Harold E. Pendexter, Jr., 61 Senior Vice President and Chief Administra-	Senior Vice President, Human Resources and Administration to January 1991.	January 1991

tive Officer		
Raymond T. Belz, 55 Vice President and Controller, Vice President and Chief Financial Officer, North American Gypsum	Vice President Financial Services and Financial Administration, United States Gypsum Company to January 1994; Vice President and Controller, USG Corporation, Vice President Financial Services, United States Gypsum Company to January 1995.	January 1995
Brian W. Burrows, 56 Vice President, Research and Development	Same position.	March 1987
Matthew P. Gonring, 41 Vice President, Corporate Communica-tions	Director, Public Relations to January 1991; Director, Corporate Communications to March 1993.	March 1993
Michael P. Kane, 44 Vice President-Inter-national Development; Vice President, Pacific Rim Operations, World-wide Ceilings	Director, Regulatory Affairs and Chief Labor Counsel, USG Corporation to January 1991; Vice President Regulatory Affairs and Chief Labor Counsel, USG Corporation, to August 1992; Vice President Pacific Rim and General Manager, Gypsum Fiberboard, USG International, to March 1995; Vice President Pacific Rim and International Business Development, USG International, to January 1996.	January 1996
John E. Malone, 52 Vice President and Treasurer	Vice President and Controller, USG Corporation to January 1994; Vice President - Finance, USG International, from March 1993 to February 1995.	January 1994
Robert B. Sirgant, 55 Vice President, Corporate Accounts	Director, Marketing - East Region, United States Gypsum Company to November 1992; Vice President, National Accounts and Marketing - East, United States Gypsum Company to July 1994; Vice President, National Accounts, United States Gypsum Company to January 1995.	January 1995
S. Gary Snodgrass, 44 Vice President, Human Resources - Operations; Vice President, Human Resources, Worldwide Ceilings	Director, Human Resources, USG Corporation to September 1992; Vice President, Management Resources and Employee Relations to January 1994; Vice President, Human Resources - Operations to February 1995.	February 1995
Frank R. Wall, 63 Vice President; President and Chief Executive Officer, L&W Supply Corporation	Senior Vice President, Operating Services, United States Gypsum Company to April 1993; Executive Vice President and Chief Operating Officer, L&W Supply Corporation to January 1994, President and Chief Executive Officer, L&W Supply to March 1995.	March 1995
Dean H. Goossen, 49 Corporate Secretary	Vice President, General Counsel and Secretary, Xerox Financial Services Life Insurance Company to February 1993; Assistant Secretary, USG Corporation to February 1994.	February 1994
Paul J. Vanderberg, 36 President and Chief Executive Officer, CGC Inc.	General Manager, Materials Division, United States Gypsum Company to February 1992; General Manager, Durock, United States Gypsum Company to March 1994; Director, Market Development and Planning, United States Gypsum Company from November	January 1995

1992 to March 1994; Executive Vice President and Chief Operating Officer, CGC Inc. to January 1995.

Item 11. EXECUTIVE COMPENSATION

Information required by Item 11 has been omitted from this report as it will be filed with the SEC in a definitive proxy statement pursuant to Regulation 14A, which definitive proxy statement is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by Item 12 has been omitted from this report as it will be filed with the SEC in a definitive proxy statement pursuant to Regulation 14A, which definitive proxy statement is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by Item 13 has been omitted from this report as it will be filed with the SEC in a definitive proxy statement pursuant to Regulation 14A, which definitive proxy statement is incorporated herein by reference.

PART IV

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

(a) The following documents are filed as part of this 10-K Report:

1. The consolidated financial statements, notes to financial statements and report of independent public accountants included in the Corporation's 1995 Annual Report to Stockholders and listed below are incorporated herein by reference.

   Consolidated Statement of Earnings - Years ended December 31, 1995 and 1994, and periods of May 7 through December 31, 1993, and January 1 through May 6, 1993.

   Consolidated Balance Sheet - As of December 31, 1995 and 1994.

   Consolidated Statement of Cash Flows - Years ended December 31, 1995 and 1994, and periods of May 7 through December 31, 1993, and January 1 through May 6, 1993.

   Notes to Financial Statements.

   Report of Independent Public Accountants.

2. Supplemental Financial Statement Schedules:

   Schedule II - Valuation and Qualifying Accounts

   Supplemental Note on Financial Information For United States Gypsum Company

   Report of Independent Public Accountants With Respect to Supplemental Note and Financial Statement Schedule.

   All other schedules have been omitted because they are not required, are not applicable, or the information is included in the financial statements or notes thereto.

3. Exhibits (Reg. S-K, Item 601):

Exhibit
No.

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 relating to USG Corporation's 8% Senior Notes due 1996 (incorporated by reference to Exhibit 4(b) of USG Corporation's 1993 Annual Report on Form 10-K, dated March 14, 1994).

(c) Resolutions dated March 5, 1987 of a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 8.75% Debentures due 2017 (incorporated by reference to Exhibit 4(c) of USG Corporation's 1993 Annual Report on Form 10-K, dated March 14, 1994).

(d) Resolutions dated March 6, 1987 of a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 8% Senior Notes due 1997 (incorporated by reference to Exhibit 4(d) of USG Corporation's 1993 Annual Report on Form 10-K, dated March 14, 1994).

(e) Resolutions dated February 1, 1994 of a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 9.25% Senior Notes due 2001 (incorporated by reference to Exhibit 4(f) of USG Corporation's Registration No. 33-51845 on Form S-1, dated February 16, 1994).

(f) Resolutions dated August 3, 1995 of a Special Committee created by the Board of Directors of USG Corporation relating to USG Corporation's 8.5% Senior Notes due 2005 (incorporated by reference to Exhibit 4(b) of Amendment No. 3 to USG Corporation's Registration Statement No. 33-60563 on Form S-3, dated July 28, 1995).

(g) 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).

(h) 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).

(i) 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).

(j) 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) Form of Nonqualified Stock Option Agreement relating to stock option grants dated June 1, 1993, February 9, 1994 and August 10, 1994 (incorporated by reference to Exhibit 10(l) of Amendment No. 1 on USG Corporation's Registration Statement No. 33-61152 on Form S-1).

(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) Agreement, dated August 31, 1992 among USG Corporation and the Ad Hoc Committee of Holders of 13.25% 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).

(i) 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).

(j) 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).

(k) 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).

(l) 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).

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

(n) 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 Amendment No. 1 of USG Corporation's Registration Statement No. 33-51845 on Form S-1).

(o) Letter Agreement dated July 28, 1994 between USG Corporation and Eugene B. Connolly (incorporated by reference to Exhibit 10(an) of USG Corporation's 1994 Annual Report on Form 10-K, dated March 8, 1995).

(p) Credit Agreement dated as of July 27, 1995 among USG Corporation and the Banks listed on the signature page thereto and Chemical Bank as Agent (incorporated by reference to Exhibit 99(a) of Amendment No. 3 to USG Corporation's Registration Statement No. 33-60563 on

Form S-3, dated July 28, 1995).

(q) Amendment No. 1, dated as of February 1, 1996 to the Credit Agreement.

(r) Collateral Trust Agreement dated as of July 27, 1995 between USG Corporation, certain of its subsidiaries and Wilmington Trust Company and William J. Wade, as Trustee (incorporated by reference to Exhibit 99(b) of Amendment No. 3 to USG Corporation's Registration Statement No. 33-60563 on Form S-3, dated July 28, 1995).

(s) Company Pledge Agreement dated as of July 27, 1995 among USG Corporation, as Pledgor, and Wilmington Trust Company and William J. Wade, as Trustee (incorporated by reference to Exhibit 99(c) of Amendment No. 3 to USG Corporation's Registration Statement No. 33-60563 on Form S-3, dated July 28, 1995).

(t) Stock Compensation Program for Non-Employee Directors of USG Corporation, dated May 10, 1995.

(u) 1995 Long-Term Equity Plan of USG Corporation (incorporated by reference to Annex A to USG Corporation's Proxy Statement and Proxy dated March 31, 1995).

(v) Form of Nonqualified Stock Option Agreement, pursuant to the 1995 Long-Term Equity Plan.

(w) Form of Performance-Based Restricted Stock Award Agreement, pursuant to the 1995 Long-Term Equity Plan.

(x) Form of Restricted Stock Award Agreement, pursuant to the 1995 Long-Term Equity Plan.

(y) 1995 Annual Management Incentive Program - USG Corporation.

11 Computation of Earnings/(Loss) Per Common Share

13 Portions of USG Corporation's 1995 Annual Report to Stockholders.

(Such report is not deemed to be filed with the Commission as part of this Annual Report on Form 10-K, except for the portions thereof expressly incorporated by reference.)

21 Subsidiaries

23 Consents of Experts and Counsel
Consent of Arthur Andersen LLP

24 Power of Attorney

27 Financial Data Schedule

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the fourth quarter of 1995.

Index to exhibits filed
with the Annual Report on Form 10-K
for the year ended December 31, 1995

Exhibit

10(q) Amendment No. 1 to the Credit Agreement

10(t) Stock Compensation Program for Non-Employee Directors of USG Corporation

10(v) Form of Nonqualified Stock Option Agreement

10(w) Form of Performance-Based Restricted Stock Award Agreement

10(x) Form of Restricted Stock Award Agreement

10(y) 1995 Annual Management Incentive Program - USG Corporation

11 Computation of Earnings/(Loss) Per Common Share

13 Portions of USG Corporation's 1995 Annual Report to Stockholders

21 Subsidiaries

23 Consent of Experts

24 Power of Attorney

27 Financial Data Schedule

If you wish to receive a copy of any exhibit, it may be obtained, upon payment of reasonable expenses, by writing to:

Dean H. Goossen, Corporate Secretary
USG Corporation
Department #188
P.O. Box 6721
Chicago, IL 60680-6721

USG CORPORATION
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(Dollars in millions)

	Beginning Balance	Provision Charged to Costs and Expenses	Receivables Written Off and Discounts Allowed	Ending Balance
Year ended December 31, 1995:				
Doubtful accounts	$ 11	$ 6	$ (6)	$ 11
Cash discounts	3	35	(35)	3
Year ended December 31, 1994:				
Doubtful accounts	11	7	(7)	11
Cash discounts	2	33	(32)	3
May 7 through December 31, 1993:				
Doubtful accounts	11	4	(4)	11
Cash discounts	2	19	(19)	2
January 1 through May 6, 1993:				
Doubtful accounts	9	3	(1)	11
Cash discounts	2	10	(10)	2

USG CORPORATION
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. Debentures totaling $22 million and $33 million were recorded on the holding company's books of account as of December 31, 1995 and 1994, respectively. Financial results for U.S. Gypsum are presented below in accordance with disclosure requirements of the SEC (dollars in millions):

Summary Statement of Earnings

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through December 31, 1993	January 1 through May 6, 1993
Net sales	$ 1,309	$ 1,209	$ 673	$ 297
Cost and expenses	1,015	990	584	268
Amortization of excess reorganization value	61	61	41	-
Operating profit	233	158	48	29
Interest income, net	(13)	(5)	(2)	-
Other income, net	-	-	(1)	-
Corporate charges	90	93	60	52
Reorganization items	-	-	-	(295)
Earnings/(loss) before taxes on income and change in accounting principle	156	70	(9)	272
Taxes on income	83	49	15	(11)
Earnings/(loss) before change in accounting principle	73	21	(24)	283
Cumulative effect of change in accounting principle	-	-	-	28
Net earnings/(loss)	73	21	(24)	311

Summary Balance Sheet

	As of December 31, 1995	As of December 31, 1994
Current assets	$ 207	$ 341
Property, plant and equipment, net	529	491
Excess reorganization value, net	143	204
Other assets	120	107
Total assets	999	1,143
Current liabilities	170	154
Other liabilities and obligations	348	299
Stockholder's equity	481	690
Total liabilities and stockholder's equity	999	1,143

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

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of USG Corporation included in this Form 10-K, and have issued our report thereon dated January 25, 1996. Our report on the consolidated financial statements includes an explanatory paragraph with respect to the Corporation's May 6, 1993, financial restructuring and the application of fresh start accounting. As discussed in Notes to Financial Statements - Note 6. Financial Restructuring, results of operations from January 1 through May 6, 1993, are not comparable with results of operations subsequent to that date. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental note and financial statement schedule on pages 20 and 19 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 consolidated financial statements. The supplemental note and financial statement schedule have been subjected to the auditing procedures applied in the audit of the consolidated 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 consolidated financial statements taken as a whole.

/s/Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 25, 1996

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 29, 1996

By:/s/ Richard H. Fleming
Richard H. Fleming
Senior 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/ William C. Foote WILLIAM C. FOOTE President, Chief Executive Officer and Director (Principal Executive Officer)	February 29, 1996
/s/ Richard H. Fleming RICHARD H. FLEMING Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 29, 1996
/s/ Raymond T. Belz RAYMOND T. BELZ Vice President and Controller (Principal Accounting Officer)	February 29, 1996

ROBERT L. BARNETT, KEITH A. BROWN,	)	By:/s/ Richard H. Fleming
W. H. CLARK, EUGENE B. CONNOLLY	)	Richard H. Fleming
JAMES C. COTTING, LAWRENCE	)	Attorney-in-fact
M. CRUTCHER, DAVID W. FOX,	)	Pursuant to Power of Attorney
PHILIP C. JACKSON, JR.,	)	(Exhibit 24 hereto)
MARVIN E. LESSER, JOHN B. SCHWEMM,	)	February 29, 1996
JUDITH A. SPRIESER,	)	
Directors	)	

Execution Copy

AMENDMENT NO. 1 dated as of February 1, 1996 (this "Amendment"), among USG Corporation, a Delaware corporation (the "Borrower"), the financial institutions parties hereto (the "Lenders" and Chemical Bank, a New York banking corporation, in its separate capacity as agent for the Lenders (the "Agent").

PRELIMINARY STATEMENTS. (1) The Borrower, the Lenders, the Issuing Banks and the Agent have entered into the Credit Agreement dated as of July 27, 1995 (the "Credit Agreement") and have agreed to amend the Credit Agreement as hereinafter set forth.

(2) Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement.

In consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto hereby agree, on the terms and subject to the conditions set forth herein, as follows:

SECTION 1. Amendment of the Credit Agreement. The Credit Agreement is hereby amended as follows:

1.1. Section 1.01 of the Credit Agreement is hereby amended to insert the following new definitions in appropriate alphabetical order therein:

"Chemical" shall mean Chemical Bank, a New York banking corporation, and its successors and assigns.

"Mandatory Borrowing" shall have the meaning given to such term in Section 2.02A(d).

"Maximum Swingline Amount" shall mean $30,000,000.

"Money Market Rate" shall mean, at any time, a rate agreed upon between the Borrower and Chemical.

"Money Market Rate Borrowing" shall mean a Borrowing comprised of Money Market Rate Loans.

"Money Market Rate Loan" shall mean any Swingline Loan the rate of which is based upon the Money Market Rate.

"Swingline Loan Borrowing" shall mean a group of Swingline Loans of the same Type made by Chemical on a single date.

"Swingline Loan Note" shall have the meaning given to such term in Section 2.05.

"Swingline Loans" shall mean the swingline loans made by Chemical to the Borrower pursuant to Section 2.02A. Each Swingline Loan shall be a Money Market Rate Loan or an ABR Loan.

1.2. Section 1.01 of the Credit Agreement is hereby further amended to amend and restate the following definitions in their entirety:

"Borrowing" shall mean a Revolving Loan Borrowing, a Competitive Bid Borrowing or a Swingline Loan Borrowing.

"Lender" shall mean, at any time, (i) a financial institution that is either set forth on the signature pages hereof or that has become a lender pursuant to Section 9.04 and that, as of such time, remains a party hereto and (ii) in its individual capacity, Chemical, as maker of the Swingline Loans.

"Loans" shall mean Competitive Bid Loans, Revolving Loans and/or Swingline Loans.

"Note" shall mean a Competitive Bid Note, a Revolving Loan Note or the Swingline Loan Note.

"Outstandings" shall mean, at any given time, the aggregate outstanding principal balance of Revolving Loans, Competitive Bid Loans, Swingline Loans and the LC Exposure.

1.3. Section 1.01 of the Credit Agreement is hereby further amended to insert the following as new clause (c) contained in the definition of "Interest Period" immediately preceding the words "and (c)" contained therein and to relabel current clause (c) contained therein as new clause (d):

"(c) as to any Money Market Rate Loan, the period commencing on the date of such Money Market Rate Loan, and ending on a date agreed upon by the Borrower and Chemical which is at least one and not more than 21 days after the making of such Money Market Rate Loan,"

1.4. Section 1.01 of the Credit Agreement is hereby further amended to insert the phrase "all Swingline Loans requested but not yet advanced," immediately following the second comma contained in the second sentence of the definition of "Revolving Credit Availability" contained therein.

1.5. Section 1.01 of the Credit Agreement is hereby further amended to insert the term "the Money Market Rate" immediately following the term "Alternate Base Rate," contained in the definition of "Type" contained therein.

1.6. Section 2.01 of the Credit Agreement is hereby amended to insert the following as new clause (b) thereunder and to relabel current clause (b) contained therein as new clause (c):

"(b) Subject to the terms and conditions set forth in this Agreement, Chemical in its individual capacity, hereby agrees to make Swingline Loans, in dollars, to the Borrower from time to time during the period from the Closing Date to the Business Day immediately preceding the Termination Date, provided that (i) such Swingline Loan Borrowing shall not exceed the Revolving Credit Availability at such time and (ii) the aggregate principal amount of all Swingline Loans shall not exceed the Maximum Swingline Amount."

1.7. Section 2.02(c) of the Credit Agreement is hereby amended to insert the parenthetical "(unless such Revolving Loan Borrowing constitutes a Mandatory Borrowing in which case the amounts so received shall be applied in accordance with Section 2.02A(d))" immediately preceding the word "or" where it appears in the first sentence thereof.

1.8. Article II of the Credit Agreement is hereby amended to insert the following new Section 2.02A immediately following Section 2.02 contained therein:

"SECTION 2.02A. Swingline Loans. (a) Each Swingline Loan Borrowing shall be in a minimum principal amount of $1,000,000 and in multiples of $500,000 in excess thereof or in an aggregate principal amount equal to the Revolving Credit Availability, provided that in no case shall any Money Market Rate Borrowing be in a principal amount of less than $500,000. Each Swingline Loan Borrowing shall be comprised entirely of ABR Loans or Money Market Rate Loans, as the Borrower may request pursuant to Section 2.03A, provided that on the date of any Mandatory Borrowing described below, all Swingline Loans giving rise to such Mandatory Borrowing shall automatically become ABR Loans. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than four separate Borrowings of Swingline Loans which are Money Market Rate Loans being outstanding hereunder at any one time. All Swingline Loans may be repaid and reborrowed from time to time in accordance with the provisions hereof.

(b) No later than 12:00 noon, New York City time, or in the event that notice of a Borrowing of Swingline Loans is given on the proposed date of such Borrowing, no later than 3:00 p.m., New York City time, on the date specified by the Borrower for each Swingline Loan Borrowing, Chemical will credit the amounts of such Swingline Loans to the general deposit account of the Borrower maintained with Chemical.

(c) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Swingline Loan Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

(d) On any Business Day, Chemical may, in its sole discretion, give notice to the Lenders that its outstanding Swingline Loans shall be funded with a Revolving Loan Borrowing (provided that such notice shall be deemed to have been automatically given upon the occurrence of an Event of Default under Sections 7.01(g) or Section 7.01(h)), in which case a Revolving Loan Borrowing constituting ABR Loans (such Borrowing, a "Mandatory Borrowing") shall be made on the immediately succeeding Business Day by all Lenders simultaneously and proportionately to their respective Pro Rata Shares (determined before giving effect to any termination of the Commitments pursuant to Section 7.02(a)) in accordance with the terms of Section 2.02 and the proceeds thereof shall be applied directly by the Agent, upon its receipt thereof from the respective Lenders, to Chemical to repay Chemical for such outstanding Swingline Loans. Each Lender hereby irrevocably agrees to make Revolving Loans upon one Business Day's notice pursuant to each Mandatory Borrowing in the amount and in the manner specified in the preceding sentence and on the date specified in writing by Chemical notwithstanding (i) the amount of the Mandatory Borrowing may not comply with the minimum amount for Borrowings otherwise required hereunder, (ii) whether any conditions specified in Section 4.01 are then satisfied, (iii) whether a Potential Event of Default or an Event of Default then exists, (iv) the date of such Mandatory Borrowing and (v) any reduction in the Revolving Credit Commitments after any such Swingline Loans were made. In the event that any Mandatory Borrowing cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of a proceeding under the Bankruptcy Code with respect to the Borrower), each Lender hereby agrees that it shall forthwith purchase from Chemical such assignments in the outstanding Swingline Loans as shall be necessary to cause the Lenders to share in such Swingline Loans ratably based upon their respective Pro Rata Shares (determined before giving effect to any termination of the Commitments pursuant to Section 7.02(a)), provided that all interest payable on the Swingline Loans shall be for the account of Chemical until the date the respective assignment is purchased and, to the extent attributable to the purchased assignment, shall be payable to the assignee from and after such date of purchase. Notwithstanding anything to the contrary in Section 2.01(b), Chemical will not make, and shall have no obligation to make, a Swingline Loan after it has received written notice from any Lender or otherwise becomes aware that a Potential Event of Default or an Event of Default exists.

(e) Notwithstanding Section 2.08(f), interest on each Swingline Loan shall be payable on the date the Lenders are required to make a Mandatory Borrowing under clause (d) above.

(f) The Borrower shall have the right at any time and from time to time to prepay Swingline Loans, in whole or in part, provided, however, that (i) each partial prepayment shall be in an amount which is an integral multiple of $500,000 and (ii) all optional prepayments of Swingline Loans shall be subject to Section 2.18 but otherwise without premium or penalty. All prepayments of Money Market Rate Loans under this clause (f) shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment."

1.9. Article II of the Credit Agreement is hereby amended to insert the following new Section 2.03A immediately following Section 2.03 contained therein:

"SECTION 2.03A. Rate Inquiry; Notice of Borrowings of Swingline Loans. (a) The Borrower may prior to 1:00 p.m., New York City time, on any Business Day, request a quote of the Money Market Rate which would be applicable for Swingline Loans, specifying the amount of the proposed Money Market Rate Loans and the maturity date thereof. Chemical hereby agrees that it shall promptly provide such quote.

(b) The Borrower shall give Chemical written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) of a Borrowing consisting of Swingline Loans, not later than 1:00 p.m., New York City time, on the Business Day such Swingline Loan is to be made. Such notice shall be irrevocable (except as expressly set forth herein) and shall in each case refer to this Agreement and specify (i) the date of such Borrowing, (ii) the amount of such Borrowing, (iii) whether the Swingline Loan Borrowing then being requested is to be a Money Market Rate Borrowing or an ABR Borrowing, and (iv) any other terms to be applicable to such Swingline Loan Borrowing.

(c) Mandatory Borrowings shall be made upon the notice specified in Section 2.02A(d), with the Borrower irrevocably agreeing, by its incurrence of any Swingline Loan, to the making of Mandatory Borrowings as set forth in Section 2.02A(d)."

1.10. Section 2.05 of the Credit Agreement is hereby amended to insert the following as new clause (c) thereunder and to relabel current clause (c) contained therein as new clause (d):

"(c) The Borrower shall execute and deliver to Chemical on or before the date on which the initial Swingline Loan is made a promissory note substantially in the form of Exhibit H-3 (the "Swingline Loan Note") to evidence the aggregate amount of Chemical's Swingline Loans and with other appropriate insertions. The Swingline Loan Note shall be stated to mature on the Termination Date and shall be in a principal amount equal to the Maximum Swingline Amount."

1.11. Section 2.06(a) of the Credit Agreement is hereby amended to amend and restate the first sentence contained therein in its entirety as follows:

"The Borrower agrees to pay the outstanding principal balance of:

(i) each Revolving Loan on the Termination Date;

(ii) each Swingline Loan which is an ABR Loan on the Termination Date and each Swingline Loan which is a Money Market Rate Loan on the Interest Payment Date with respect thereto; and

(iii) each Competitive Bid Loan as

provided in Section 2.04(a).

1.12. Section 2.08(a) of the Credit Agreement is hereby amended to insert the following phrase "and the Swingline Loans" immediately following the term "Revolving Loans" where it appears therein.

1.13. Section 2.08 of the Credit Agreement is hereby further amended to insert the following as new clause (e) thereunder and to relabel current clause (e) contained therein as new clause (f):

"(e) Subject to the provisions of Section 2.09, the Swingline Loans comprising each Money Market Rate Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Money Market Rate."

1.14. Section 2.14 of the Credit Agreement is hereby amended to insert the following phrase immediately following the term "Revolving Loans" where it appears therein:

"or the Swingline Loans, and in the case where such payments or prepayments of Revolving Loans or Swingline Loans are insufficient, Competitive Bid Loans,"

1.15. Section 2.14 of the Credit Agreement is hereby further amended to insert the phrase "or Money Market Rate Loans" immediately following the term "Eurodollar Loans" where it appears therein.

1.16. Section 2.18 of the Credit Agreement is hereby amended to insert the phrase "or Money Market Rate Loan" immediately following the term "Eurodollar Loan" in the first instance where it appears therein.

1.17. Section 2.18 of the Credit Agreement is hereby further amended to insert the phrase "or Money Market Rate Loan, as applicable" immediately following the term "Eurodollar Loan" in the second instance where it appears therein.

1.18. Section 2.18 of the Credit Agreement is hereby further amended to insert the phrase "or Money Market Rate, as the case may be," immediately following the term "LIBO Rate" where it appears therein.

1.19. Section 4.01(a) of the Credit Agreement is hereby amended and restated in its entirety as follows:

"(a) Notice of Borrowing. The Agent, Chemical and/or, where applicable, an Issuing Bank shall have received a notice of such Credit Event as required by Section 2.03, Section 2.03A, Section 2.04 or Section 2.15(c)."

1.20. The Credit Agreement is hereby amended to attach Exhibit H-3 hereto as Exhibit H-3 to the Credit Agreement.

SECTION 2. Representations and Warranties. The Borrower represents and warrants to each of the Lenders and the Agent that:

(a) This Amendment has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms except as such enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(b) Before and after giving effect to this Amendment, the representations and warranties set forth in Article V of the Credit Agreement are true and correct in all material respects with the same effect as if made on the date hereof, except to the extent such representations and warranties expressly relate to an earlier date.

(c) Before or after giving effect to this Amendment, no Event of Default or Potential Event of Default has occurred and is continuing.

SECTION 3. Condition to Effectiveness. The amendments to the Credit Agreement set forth in this Amendment shall become effective as of the date first above written when the Agent shall have received counterparts of this Amendment that, when taken together, bear the signatures of the Borrower, Chemical and the Requisite Lenders.

SECTION 4. Credit Agreement. Except as specifically amended hereby, the Credit Agreement and each Loan Document shall continue in full force and effect in accordance with the respective provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Credit Agreement shall mean the Credit Agreement as amended hereby.

SECTION 5. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

SECTION 6. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

SECTION 7. Expenses. The Borrower agrees to reimburse the Agent for its out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Sidley & Austin, counsel for the Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

USG Corporation

BY -------------------------

Name ------------------------

Title -----------------------

Chemical Bank, individually and as Agent

By -------------------------

Name ------------------------

Title -----------------------

Bankers Trust Company

By -------------------------

Name ------------------------

Title -----------------------

(Additional signature pages for exhibit 10(q) have been intentionally omitted).

EXHIBIT H-3
to
CREDIT AGREEMENT
Dated as of July 27, 1995

FORM OF
SWINGLINE LOAN NOTE

$30,000,000 February __, 1996

FOR VALUE RECEIVED, the undersigned, USG Corporation, a Delaware corporation (the "Borrower"), HEREBY UNCONDITIONALLY PROMISES TO PAY to the order of Chemical Bank (the "Lender") the principal sum of THIRTY MILLION AND NO/100 DOLLARS ($30,000,000), or, if less, the aggregate unpaid amount of all of the Swingline Loans made by the Lender pursuant to the "Credit Agreement" (as hereinafter defined). Capitalized terms used herein and not otherwise defined herein are used as defined in the Credit Agreement.

The principal amount of the indebtedness evidenced hereby shall be payable in the amounts and on the dates as determined in accordance with the terms of the Credit Agreement and, if not sooner paid in full, on the Termination Date. The Borrower further promises to pay interest on the unpaid principal amount of each Swingline Loan from the date of such Swingline Loan, until the principal amount thereof is paid in full, at the interest rates and payable at the times as determined in accordance with the terms of the Credit Agreement.

All payments of principal and interest in respect of this Swingline Loan Note shall be made payable to the Agent in lawful money of the United States of America in same day funds for the Lender's account at Chemical Bank, Account No. 323-207316, 270 Park Avenue, New York, New York 10017, Re: Payment for USG Corporation, or at such other place as shall be designated in writing by the Agent for such purpose in accordance with the terms of the Credit Agreement.

All Swingline Loans made by the Lender to the Borrower, and all repayments of the principal of all Swingline Loans shall be recorded by the Lender and, prior to any transfer thereof, endorsed by the Lender on the schedule attached hereto and made a part hereof; provided, that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This Swingline Loan Note is the Swingline Loan Note referred to in, and is entitled to the benefits of, that certain Credit Agreement dated as of July 27, 1995, as amended by Amendment No. 1 thereto dated as of February 1, 1996 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement") among the Borrower, certain financial institutions party thereto as "Lenders" and "Issuing Banks" and Chemical Bank, as agent (the "Agent"). The Credit Agreement, among other things, (i) provides for the making of Swingline Loans by the Lender to the Borrower from time to time and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

Borrower hereby waives demand, presentment, protest and notice of nonpayment and protest.

Whenever in this Swingline Loan Note reference is made to the Agent, the Lender or the Borrower, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Swingline Loan Note shall be binding upon and shall inure to the benefit of said successors and assigns. Borrower's successors and assigns shall include, without limitation, a receiver, trustee or debtor in possession of or for Borrower.

THIS SWINGLINE LOAN NOTE SHALL BE INTERPRETED, AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO SHALL BE DETERMINED, IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

USG CORPORATION

By:___________________________
Title:

USG Corporation Swingline Loan Note Schedule

Date	Amount of Loan	Type of Loan	Interest Period	Amount of Principal Repaid	Unpaid Principal Balance	Notation Made by

STOCK COMPENSATION PROGRAM
FOR
NON-EMPLOYEE DIRECTORS
OF
USG CORPORATION

This document is the definitive statement of the Stock Compensation Program for Non-Employee Directors of USG Corporation (the "Program").

1. Purpose. The purpose of the Program is to attract and retain outstanding non-employee directors by enabling them to participate in the Corporation's growth through automatic, nondiscretionary awards of restricted shares of common stock of the Corporation.

2. Eligibility. Eligibility for participation in the Program is limited to persons then currently serving as directors of the Corporation who are not "employees" of the Corporation (or any of its subsidiaries) within the meaning of the Employee Retirement Income Security Act of 1974 or for federal income tax withholding purposes (the "Participants").

3. Stock Available for the Program. Shares of the common stock of the Corporation, $0.10 par value ("Common Stock"), available for issuance pursuant to the Program shall be authorized and unissued shares or treasury shares of the Corporation. An aggregate of 100,000 shares of Common Stock shall be so available. No awards shall be made under the Program after 1999.

4. Awards of Restricted Stock. Awards under the Program shall be made as follows.

> 4.1. Dates and Amounts. An award shall be made to each of the Participants on the 25th day of September (or on the next day that the New York Stock Exchange shall be open for trading if not open on the 25th day of September), in an amount of shares of Common Stock equivalent to one-quarter of the then current annual retainer payable to non-employee directors (rounded up to the next whole share in the event of fractional shares) based on the mean of the high and low sales prices of a share of the Common Stock on such date as reported on the New York Stock Exchange composite tape.
>
> 4.2. Insufficient Shares. If at any time the remaining shares authorized for issuance under the Program shall be insufficient to satisfy the awards as calculated pursuant to the immediately preceding provisions, then the shares remaining shall be distributed among the Participants on a pro rata basis.

5. Restrictions. The shares awarded pursuant to Article 4 have not been registered with the Securities and Exchange Commission (the "Commission"). None of the Participants shall sell, assign, exchange, donate, pledge, or encumber any of such shares unless they shall have been registered with the Commission, which the Corporation is not obligated to do, or they shall be eligible for an exemption from registration, such as a sale in compliance with the Commission's Rule 144 after the shares have been held not less than two years from the date of grant (the period from the date of a grant of shares until such registration or exemption is herein referred to as the "Restriction Period" with respect to such shares). Such shares and awards also shall be subject to the following conditions.

5.1. Legend and Custody. The Corporation shall issue certificates representing the shares granted pursuant to Article 4 registered in the name of the respective Participants. Such certificates shall bear legends referring to the restrictions applicable to the awards as deemed appropriate or desirable by the Corporation.

5.2. Change in Control. In the event of a "change in control" of the Corporation during the Restriction Period, the shares granted pursuant to Article 4 shall be converted to cash on the basis of the "change in control price", and such cash shall be paid to each Participant respectively.

5.2.1. For purposes of this Article 5.2, "change in control" means the happening of any of the following:

(a) When any "person" as defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Act"), and as used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) thereof but excluding the Corporation and any subsidiary and any employee benefit plan sponsored or maintained by the Corporation or any subsidiary (including any trustee of such plan acting as trustee), directly or indirectly, becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act) of securities of the Corporation representing 20 percent or more of the combined voting power of the Corporation's then outstanding securities (excluding the acquisition by Water Street Corporate Recovery Fund I, L.P. of voting securities of the Corporation upon the consummation of the Corporation's Prepackaged Plan of Reorganization on May 6, 1993);

(b) When, during any period of 24 consecutive months during the Restriction Period, the individuals who, at the beginning of such period, constitute the Board of Directors (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof; provided, however, that a director who was not a director at the beginning of such 24-month period shall be deemed to have satisfied such 24-month requirement (and be an Incumbent Director) if such director was elected by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors either actually (because they were directors at the beginning of such 24-month period) or by prior operation of this Article 5.2; or

(c) The approval by the stockholders of the Corporation of a transaction involving the acquisition of the Corporation by an entity other than the Corporation or a subsidiary through purchase of assets, by merger, or otherwise.

5.2.2. For purposes of this Article 5.2, "change in control price" shall mean the highest price per share paid in any transaction reported on the New York Stock Exchange composite tape, or paid or offered in any bona fide transaction related to a change in control of the Corporation at any time during the sixty-day period immediately preceeding the occurrence of the change in control, in each case as determined by the Board of Directors.

6. Other Benefits and Rights of Participants. Participants shall be entitled to the following benefits and rights.

6.1. Purchase Price; Income Taxes. The purchase price for all of the shares granted pursuant to Article 4 above shall be zero. Under current provisions of the Internal Revenue Code, the value of Common Stock becomes taxable income to the recipient on the date of grant, and the Corporation will be entitled to a deduction of such value as compensation in the year paid. The value will be determined by multiplying the number of shares on the date of grant by the mean of the high and low sales prices of a share of Common Stock on the date of such event as reported on the New York Stock Exchange composite tape.

6.2. Rights of Participants. During the Restriction Period, each Participant shall have all the benefits and rights of a registered stockholder, including, but not by way of limitation, the right to vote the shares granted pursuant to Article 4 an of Article 5 shall remain in force during such time and shall be a limitation on such benefits and rights.

6.3. Release of Restrictions. If the Restriction Period expires without the occurrence of any of the conditions specified or described in Article 5.2, the Corporation at that time promptly shall deliver to the Participant in exchange for any certificate or certificates theretofore so delivered, a certificate or certificates bearing no legends and otherwise freed of restrictions for shares granted pursuant to Article 4.

7. Changes in Capitalization or Organization. Nothing contained in this document shall alter or diminish in any way the right and authority of the Corporation to effect changes in its capital or organizational structure; provided, however, that the following procedures shall be recognized.

7.1. Stock Split, Stock Dividend, or Extraordinary Distribution. In the event the number of shares of Common Stock of the Corporation is increased at any time during the Restriction Period by a stock split, by declaration by the Board of Directors of the Corporation of a dividend payable only in shares of such stock, or by any other extraordinary distribution of shares, the number of shares granted pursuant to Article 4 shall be proportionately adjusted.

7.2. Organizational Changes. In the event a merger, consolidation, reorganization, or other change in corporate structure materially changes the terms or value of the common stock of the Corporation, the number of shares granted pursuant to Article 4 shall be adjusted in such manner as the Board of Directors in its sole discretion shall determine to be equitable and consistent with the purposes of the Program. Such determination shall be conclusive for all purposes with respect to the grant made in Article 4.

8. Listing, Registration, and Legal Compliance. Each award made pursuant to Article 4 shall be subject to the requirement that if at any time counsel to the Corporation shall determine that the listing, registration or qualification thereof or of any shares of the Common Stock subject thereto upon any securities exchange or under any foreign, federal or state securities or other law or regulation, or the consent or approval of any governmental body or the taking of any other action to comply with or otherwise with respect to any such law or regulation, is necessary or desirable as a condition to or in connection with such award or delivery of shares of the Common Stock thereunder, no such award may be made or implemented unless such listing, registration, qualification, consent, approval or other action shall have been effected or obtained free of any conditions not acceptable to the Corporation. The holder of any such award shall supply the Corporation with such certificates, representations and information as the Corporation shall request and shall otherwise cooperate with the Corporation in effecting or obtaining such listing, registration,

qualification, consent, approval or other action.

9. Reports. The Corporation shall deliver to each Participant, not less frequently than once each year, a report stating the number of shares of the Stock held under the Program by such Participant and the dates on which the Restriction Period or Periods on same will end.

10. Termination or Amendment of the Program. The Board of Directors reserves the right to terminate or amend the Program at any time; provided, however, that (i) such action shall not adversely affect the rights of any Participant with respect to awards of Common Stock theretofore made; (ii) such action shall not increase the amount of Common Stock available for the Program as specified in Article 3 without the approval of the stockholders of the Corporation; and (iii) the Program shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder.

Chicago, Illinois
February 8, 1995

1995 LONG-TERM EQUITY PLAN OF USG CORPORATION

NONQUALIFIED STOCK OPTION

1. Date of Grant. This option is granted effective January 2, 1996 (the "Date of Grant").

2. Grant of Option. USG CORPORATION (the "Corporation"), for good and valuable consideration, the receipt of which is hereby acknowledged, hereby irrevocablygrants to the "Holder") a nonqualified option to purchase a total of shares of common stock, $0.10 par value, of the Corporation at the price of $ 29.40 per share, upon the terms and conditions hereinafter stated, pursuant to the 1995 Long-Term Equity Plan of the Corporation (the "Plan"), all determinations by the Committee appointed under the Plan (the "Committee") necessary or appropriate to the grant of this option, including the Committee's Operating Guidelines ("Guidelines") under the Plan pertaining to this option, having been duly made.

3. Specific Conditions of Grant. The option granted in paragraph 2 above is subject to the following conditions.

3.1. Exercisability. Subject to the provisions of paragraphs 3.3 and 3.4, the option shall be exercisable, in whole or in part, at the rate of 100% of the total grant on a cumulative basis on or after the second anniversary of the Date of Grant. In no event shall any part of the option be exercisable after the tenth anniversary of the Date of Grant.

3.2. Nontransferability. The option granted in paragraph 2 above shall be exercisable during the lifetime of the Holder only by the Holder and shall not be transferable other than by will or the laws of descent and distribution upon the death of the Holder. In the event of such death, the option shall be exercisable only in accordance with other provisions contained in this document and only (a) by the executor or administrator of the estate of the Holder or the person or persons to whom the option shall pass by will or the laws of descent and distribution, and (b) to the extent to which the Holder was entitled at the time of death.

3.3. Termination by Disability, Death or Retirement After Age 62. In the event employment of the Holder by the Corporation or any Subsidiary terminates by reason of disability, death or retirement after attaining age 62, the entire option shall become and be exercisable thereafter for a period of five (5) years from the date of such disability, death or retirement or until expiration of the term of the option specified in paragraph 3.1 above, whichever period is shorter; provided, however, that in the event of such a termination by reason of disability or retirement and the Holder dies within such five (5)-year period, the option shall be exercisable for a period of six (6) months from the date of such death or until the end of such five (5)-year period, whichever period expires later, but in no event beyond expiration of the term of the option specified in paragraph 3.1 above. For purposes of this document, "disability" shall mean an inability due to physical or mental impairment to perform the duties of the Holder's position for the immediately preceding six (6) months and an inability for the same reasons to be gainfully employed for the rest of the Holder's life, both of which findings shall be certified by a physician or physicians satisfactory to the Corporation or the appropriate Subsidiary.

3.4. Termination by Reason of Early Retirement or Discharge Without Cause. In the event employment of the Holder by the Corporation or any Subsidiary terminates by reason of retirement before age 62 or discharge by the Corporation or a Subsidiary without cause (a "Termination Event"), the option shall be exercisable thereafter as follows:

- 0% of the total grant on a cumulative basis if Termination Event occurs before the first anniversary of the Date of Grant;

- 50% of the total grant on a cumulative basis if Termination Event occurs after first but before second anniversary of the Date of Grant; and

- 100% of the total grant on a cumulative basis if Termination Event occurs after second anniversary of the Date of Grant;

in any such case for a period of five (5) years from the date of such Termination Event or until the expiration of the term of the option specified in paragraph 3.1 above, whichever period is shorter; provided, however, that in the event the Holder dies within such five (5)-year period, the option shall be exercisable following such death to the extent such option was exercisable at the time of death and for a period of six (6) months from the date of such death or until the end of such five (5)-year period, whichever period expires later, but in no event beyond expiration of the term of the option specified in paragraph 3.1 above. For purposes of this document, the term "cause" shall mean a Holder's conviction of a felony or a determination by the Committee that a Holder has engaged in acts which have been materially harmful to the Corporation or its Subsidiaries, including the following: (i) an act of fraud, embezzlement or theft in connection with the Holder's employment; (ii) wrongful damage to property of the Corporation or its Subsidiaries; (iii) wrongful disclosure of secret processes or confidential information of the Corporation or its Subsidiaries; or (iv) wrongful competition with the Corporation or its Subsidiaries.

3.5. Termination for Other Reasons. In the event employment of the Holder by the Corporation or any Subsidiary terminates for any reason other than disability, death, retirement, or discharge without cause, the option thereupon shall terminate, except that such option shall thereafter be exercisable, to the extent otherwise then exercisable, for the lesser of three (3) months or the balance of the term of the option specified in paragraph 3.1 above if such termination is by voluntary resignation by the Holder; provided, however, that in the event the Holder dies within such three (3)-month period, the option shall be exercisable following such death to the extent such option was exercisable at the time of death and for a period of six (6) months from the date of such death, but in no event beyond expiration of the term of the option specified in paragraph 3.1 above.

4. Procedure for Exercise. The option granted in paragraph 2 above shall be exercisable only in accordance with the following procedure.

4.1. Notice. The Holder shall deliver or cause to be delivered to the Corporate Secretary of the Corporation at 125 South Franklin Street, Chicago, Illinois 60606, a written notice of exercise on a form provided by or acceptable to the Corporate Secretary. Such written notice shall state the number of shares as to which the option is being exercised. The notice shall include the name(s) and address(es) the Holder wishes to use for the registration of certificates, together with the social security number of one of the persons in whose name the stock is to be registered. The date of receipt of the notice by the Corporate Secretary (together with payment and any requested representation as provided in paragraphs 4.2 and 4.3 below) shall conclusively be deemed the date of exercise.

4.2. Payment. The Holder shall make payment for the shares as to which the option is being exercised by submitting to the Corporation, together with the notice specified in paragraph 4.1 above, either a check payable to the Corporation or certificates for unrestricted shares of common stock of the Corporation then owned by the Holder (which certificates shall be properly endorsed or otherwise properly transferred to the Corporation), or by any combination of such a check and such certificates. The value of any such certificate for purposes of calculating payment of the aggregate option price for the shares as to which the option is being exercised shall be based on the closing sales price of such common stock on the New York Stock Exchange composite tape on the date of exercise, with the number of shares required for such payment to be rounded up to the next whole share. Such payment shall be accompanied by a payment equal to (a) at least the minimum then current Federal income tax withholding rate for the income realized by the Holder as of the date of exercise (which rate is twenty-eight percent (28%) on the Date of Grant), provided that the Holder may elect greater withholding up to the then maximum Federal income tax withholding rate, plus (b) an appropriate percent for state income tax withholding of such income, plus (c) any amount required to be withheld under the Federal Insurance Contributions Act (FICA); provided, however, that, in the discretion of the Corporation, the Holder may elect, by written notice to the Corporation delivered at the time of exercise, to have the total of such withholdings satisfied by a reduction in the number of shares otherwise deliverable on such exercise, such reduction to be calculated based on the closing price on the New York Stock Exchange composite tape on the date of such notice and additionally to entail issuance of no fractional shares by the Corporation (fractional balances to be eliminated by an increase in such reduction to the next full share). The income realized by the Holder as of the date of exercise shall equal the difference between the aggregate option price for the shares as to which the option is being exercised and the aggregate market value for such shares (based on (i) the sales price for such shares, in the case of a "cashless exercise" as permitted by the terms of the last sentence of this paragraph 4.2, or (ii) the closing price for such shares on the New York Stock Exchange composite tape on such date, in the case of all other exercises). The Corporation shall retain the right to change the above withholding rates to the extent required by law. Notwithstnding the foregoing, at the discretion of the Corporation, payment requirements may be satisfied by a cashless exercise as permitted by the Federal Reserve Board's Regulation T through a broker subject thereto and who is a member of the National Association of Securities Dealers, Inc., subject to applicable securities laws and state or provincial corporation law requirements.

4.3. Representation. The Holder shall deliver to the Corporation if requested by the Corporation a representation to the effect that the Holder is not acquiring the shares as to which the option is being exercised with a view to distribution thereof.

4.4. Conditions to Delivery of Shares. The Corporation in no event shall be obligated to deliver certificates for shares to the Holder until the notice and payment provisions of paragraphs 4.1 and 4.2 above have been met and until any requested representation pursuant to paragraph 4.3 above has been delivered. Notices, instruments of payment, and other documents required by any part of this paragraph 4 shall be satisfactory in form and substance to the Corporate Secretary of the Corporation. The Corporation under no circumstances shall be obligated to issue fractional shares.

5. Change in Control. In the event of a Change in Control, as defined in Section 10(b) of the Plan, after the Date of Grant, the option granted in paragraph 2 above shall (a) to the extent not previously exercisable, become fully exercisable, and (b) be valued, with such value to be converted to cash on the basis of the Change in Control Price, as defined in Section 10(c) of the Plan, minus the aggregate option price, and such cash, less applicable tax withholdings, shall be paid to the Holder.

6. Changes in Capitalization or Organization. Nothing contained in this document shall alter or diminish in any way the right and authority of the Corporation to effect changes in its capital or organizational structure; provided, however, that the following procedures shall be recognized:

6.1. Stock Split, Stock Dividend, or Extraordinary Distribution. In the event the number of outstanding shares of common stock of the Corporation is increased prior to the termination of the option granted in paragraph 2 above by a stock split, by declaration by the Board of Directors of the Corporation of a dividend payable only in shares of such stock, or by any other extraordinary distribution of shares, the number and the option price per share shall be proportionately adjusted without any change in the aggregate option purchase price.

6.2. Organizational Changes. In the event a merger, consolidation, reorganization, or other change in corporate structure materially changes the terms or value of the common stock of the Corporation, the number of shares subject to the option granted in paragraph 2 above and the option price thereof shall be adjusted in such manner as the Committee in its sole discretion shall determine to be equitable and consistent with the purposes of the Plan. Such determination shall be conclusive for all purposes with respect to the option granted in paragraph 2 above.

7. Registration, Qualification, and Listing. In the event the Board of Directors of the Corporation at any time determines in its sole discretion that the shares covered by the option granted in paragraph 2 above are required to be registered or qualified pursuant to Federal law or any state law applicable to such option or should be listed on an exchange, the option shall not be exercisable in whole or in part unless and until such registration, qualification, or listing has been effected to the satisfaction of said Board of Directors.

8. Rights of the Holder. Nothing contained in this document shall confer on the Holder any right to continue in the employment of the Corporation or any Subsidiary nor affect in any way the right of the Corporation or any Subsidiary to terminate such employment at any time. Nothing contained in this document shall affect in any way the right of the Holder to participate in any retirement, insurance, investment or other employee benefit plan of the Corporation or any Subsidiary. The Holder shall have no rights of a stockholder with respect to any of the shares covered by the option granted in paragraph 2 above until the option has been exercised in whole or in part and the shares in question have been issued.

9. Plan and Guidelines to Govern. The option granted in paragraph 2 above and all other provisions contained in this document shall be subject to and interpreted in a manner consistent with the terms and conditions of the Plan and the Guidelines.

USG CORPORATION

By
President and
Chief Executive Officer

I hereby accept the option granted in the foregoing document on the terms and conditions stated therein.

The Holder

1995 LONG-TERM EQUITY PLAN OF USG CORPORATION

PERFORMANCE-BASED RESTRICTED STOCK AWARD AGREEMENT

1. Date of Award. This award is made as of January 2, 1996 ("Date of Award").

2. Award of Performance-Based Restricted Stock. USG CORPORATION (the "Corporation"), for good and valuable consideration, the receipt of which is hereby acknowledged, hereby grants to (the "Grantee") shares of performance-based restricted common stock, $0.10 par value, of the Corporation, upon the terms and subject to the restrictions and conditions hereinafter stated. Such grant is made pursuant to the 1995 Long-Term Equity Plan of the Corporation (the "Plan"), all determinations by the Committee appointed under the Plan (the "Committee") necessary or appropriate to the making of this award, including the Committee's adoption of Operating Guidelines (the "Guidelines") under the Plan pertaining to this award, having been duly made.

3. Restrictions. Grantee shall not sell, assign, exchange, donate, pledge, or encumber the shares granted pursuant to paragraph 2 above through the termination of the Performance Period (as defined in paragraph 4) and the determination by the Committee of the vesting and release from restrictions of any portion of the award hereunder (collectively, "Restriction Period"). This award also shall be subject to the following conditions:

3.1. Legend and Custody. The Corporation shall issue a certificate or certificates representing the shares granted pursuant to paragraph 2 above, which certificate or certificates shall be registered in the name of the Grantee. Such certificate or certificates shall bear a legend or legends referring to the terms, conditions, and restrictions applicable to the aforesaid award and such other provisions as may be determined by the Corporation. Such certificate or certificates shall be retained in the custody of the Corporation at all times during the Restriction Period, and Grantee shall execute and deliver to the Corporation, promptly after the beginning of the Restriction Period, a stock power, endorsed in blank, relating to such certificate or certificates.

3.2. Change in Control. In the event of a Change in Control, as defined in Section 10(b) of the Plan, the value of the shares granted pursuant to paragraph 2 above shall be converted to cash on the basis of the Change in Control Price, as defined in Section 10(c) of the Plan, and such cash shall be paid to the Grantee.

3.3. Termination by Disability, Death or Retirement After Age 62. In the event employment of the Grantee by the Corporation or any Subsidiary terminates, prior to the termination of the Performance Period, by reason of disability, death or retirement after attaining age 62, the entire award hereunder shall be subject to the Performance Determination (as defined in paragraph 4) and the shares subjected thereto released or forfeited in accordance with the provisions of paragraph 4 below (in the event of such death, any such release of shares shall be only to the executor or administrator of the estate of the Grantee or the person or persons to whom this award shall pass by will or the laws of descent and distribution).

For purposes of this document, "disability" shall mean an inability due to physical or mental impairment to perform the duties of the Grantee's position for the immediately preceding six (6) months and an inability for the same reasons to be gainfully employed for the rest of the Grantee's life, both of which findings shall be certified by a physician or physicians satisfactory to the Corporation or the appropriate Subsidiary.

3.4. Termination by Reason of Early Retirement or Discharge Without Cause. In the event employment of the Grantee by the Corporation or any Subsidiary terminates, prior to the termination of the Performance Period, by reason of retirement before age 62 or discharge by the Corporation or a Subsidiary without cause (a "Termination Event"), the following portions of the award hereunder shall be subject to the Performance Determination and the shares subjected thereto released or forfeited in accordance with the provisions of paragraph 4 below (the portions of the award hereunder not so subject to the Performance Determination shall be forfeited as of the date of the Termination Event):

- 33 1/3% of the total awarad on a cumulative basis if Termination Event occurs before the first anniversary of the Date of Award;

- 66 2/3% of the total award on a cumulative basis if Termination Event occurs after first but before second anniversary of the Date of Award; and

- 100% of the total award on a cumulative basis if Termination Event occurs after second anniversary of the Date of Award.

For purposes of this doument, the term "cause" shall mean a Grantee's conviction of a felony or a determination by the Committee that a Grantee has engaged in acts which have been materially harmful to the Corporation or its Subsidiaries, including the following: (i) an act of fraud, embezzlement or theft in connection with the Grentee's employment; (ii) wrongful damage to property of the Corporation or its Subsidiaries; (iii) wrongful disclosure of secret processes or confidential information of the Corporation or its Subsidiaries; or (iv) wrongful competition with the Corporation or its Subsidiaries.

3.5. Termination for Other Reasons. In the event employment of the Grantee by the Corporation or any Subsidiary terminates for any reason other than disability, death, retirement, or discharge without cause, the entire award hereunder shall be forfeited on the date of such termination.

4. Performance Determination. Subject to the provisions of paragraph 3 above, the award hereunder shall be deemed earned and freed from all restrictions and delivered to the Grantee in accordance with the following schedule upon certification by the Committee of the Corporation's total shareholder return during the period beginning January 1, 1996 and ending December 31, 1998 (the "Performance Period"), relative to the total shareholder return of each of the companies (other than the Corporation) comprising the Value Line Building Materials Index ("Index"), assuming in each case standard fixed investments and reinvestment of dividends, and utilizing the average market price of a share of each company for the last six months of 1995 and 1998 as the market value of a share of such company on January 1, 1996 and December 31, 1998, respectively (the "Performance Determination"):

Total Shareholder Return of Corporation as Percentile of Returns of Other Index Members	Percent of Award Deemed Earned
70% or higher	100%
60%	70%
50% (median)	50%
40%	20%
Less than 40%	0

Any portion of the award hereunder not deemed earned in the Performance Determination shall be forfeited as of the date of the Performance Determination.

5. Other Benefits and Rights of Grantee. The Grantee shall be entitled to the following benefits and rights.

5.1. Purchase Price. The purchase price for all of the shares deemed earned in the Performance Determination shall be zero.

5.2. Rights of Stockholder. During the Restriction Period, Grantee shall have all the benefits and rights of a registered stockholder, including, but not by way of limitation, the right to vote all of the non-forfeited shares subject to this award and to receive dividends thereon; provided, however, that the restrictions imposed by the first sentence of paragraph 3 above shall remain in force during such time and shall be a limitation on such benefits and rights.

5.3. End of Restriction Period. Following the Performance Determination, the Corporation promptly shall deliver to the Grantee a certificate or certificates for all the shares deemed earned in the Performance Determination pursuant to paragraph 4 above. The Grantee recognizes that, under current provisions of federal income tax law, he will recognize ordinary income at the time of the Performance Determination in an amount equal to the aggregate market value of the shares deemed earned pursuant to paragraph 4 above (based on the mean between the high and low trading prices for a share of the Corporation's common stock on the New York Stock Exchange composite tape on such date). Prior to or simultaneously with any such delivery, Grantee shall provide the Corporation with funds (or, in the discretion of the Corporation, with the equivalent in shares of common stock of the Corporation of such funds) necessary to discharge any applicable income tax withholding obligations.

6. Changes in Capitalization or Organization. Nothing contained in this document shall alter or diminish in any way the right and authority of the Corporation to effect changes in its capital or organizational structure; provided, however, that the following procedures shall be recognized.

6.1. Stock Split, Stock Dividend, or Extraordinary Distribution. In the event the number of shares of common stock of the Corporation is increased at any time during the Restriction Period by a stock split, by declaration by the Board of Directors of the Corporation of a dividend payable only in shares of such stock, or by any other extraordinary distribution of shares, the number of shares granted pursuant to paragraph 2 above shall be proportionately adjusted.

6.2. Organizational Changes. In the event a merger, consolidation, reorganization, or other change in corporate structure materially changes the terms or value of the common stock of the Corporation, the number of shares granted pursuant to paragraph 2 above shall be adjusted in such manner as the Committee in its sole discretion shall determine to be equitable and consistent with the purposes of the Plan. Such determination shall be conclusive for all purposes with respect to the grant made in paragraph 2 above.

7. Execution, Delivery, and Performance of Agreement. Grantee shall have no rights with respect to the grant made in paragraph 2 above unless and until such Grantee has executed this Agreement in the space provided below and has delivered one executed copy of same to the Corporation, such delivery to be accomplished within sixty (60) days of the date of award specified in paragraph 1 above. Grantee likewise shall have no rights with respect to the grant made in paragraph 2 above unless such Grantee has otherwise complied with all the terms and conditions contained in this Agreement.

8. Plan and Guidelines to Govern. The grant made in paragraph 2 above and all other provisions contained in this document shall

be subject to and interpreted in a manner consistent with the terms and conditions of the Plan and the Guidelines.

USG CORPORATION

By
Corporate Secretary

ACCEPTED:

Grantee:
Date:

1995 LONG-TERM EQUITY PLAN OF USG CORPORATION

RESTRICTED STOCK AWARD AGREEMENT

1. Date of Award. This award is made as of January 2, 1996.

2. Award of Restricted Stock. USG CORPORATION (the "Corporation"), for good and valuable consideration, the receipt of which is hereby acknowledged, hereby grants to (the "Grantee") shares of restricted common stock, $0.10 par value, of the Corporation, such grant to be upon the terms and subject to the restrictions and conditions hereinafter stated. Such grant is made under the 1995 Long-Term Equity Plan of the Corporation (the "Plan"), pursuant to authority granted to the Chairman of the Corporation by the Committee appointed under the Plan (the "Committee").

3. Restrictions. The Grantee shall not sell, assign, exchange, donate, pledge, or encumber the shares granted pursuant to paragraph 2 above through the close of business on December 31, 2000 (the "Restriction Period").

4. Change in Control. In the event of a Change in Control, as defined in Section 10(b) of the Plan, the value of the shares granted pursuant to paragraph 2 above and not theretofore freed of restrictions shall be converted to cash on the basis of the Change in Control Price, as defined in Section 10(c) of the Plan, and such cash shall be paid to the Grantee.

5. Termination of Employment. In the event employment of Grantee by the Corporation or a Subsidiary shall terminate at any time prior to expiration of the Restriction Period by reason of death or total permanent disability, then all shares granted pursuant to paragraph 2 above and not theretofore freed of restrictions shall promptly be freed of restrictions. In the event such employment shall terminate prior to such time for any other reason, then all such shares not theretofore freed of restrictions shall be forfeited.

6. Other Benefits and Rights of Grantee. The Grantee shall be entitled to the following benefits and rights.

6.1. Purchase Price. The purchase price for all of the shares granted pursuant to paragraph 2 above shall be zero.

6.2. Rights of Stockholder. During the Restriction Period, and except as otherwise provided in paragraph 3 above, the Grantee shall have all the benefits and rights of a registered stockholder, including, but not by way of limitation, the right to vote the shares granted pursuant to paragraph 2 above and to receive dividends thereon.

6.3. Certificates, Legends and Custody. On or after the date stated above as the date of this award, the Corporation shall issue a certificate representing the shares granted pursuant to paragraph 2 above, which certificate shall be registered in the name of the Grantee. Such certificate shall bear a legend or legends referring to the terms, conditions, and restrictions applicable to the aforesaid award, which legend or legends shall in all other respects be appropriate and desirable as determined by the Corporation. Subject to paragraphs 4 and 5 above, such certificate shall be retained in the custody of the Corporation at all times during the Restriction Period. Subject to paragraphs 4 and 5 above, and at the conclusion of the Restriction Period, such certificate shall be cancelled and a new certificate free of restrictions for the amount of shares granted pursuant to paragraph 2 above promptly shall be delivered to the Grantee. The Grantee shall execute and deliver to the Corporation, promptly after the beginning of the Restriction Period, a stock power, endorsed in blank, relating to the certificate bearing a legend or legends.

6.4. Income Recognition; Withholdings. The Grantee recognizes that, under current provisions of federal income tax law, he will recognize ordinary income at the conclusion of the Restriction Period in an amount equal to the market value of the shares freed from restrictions hereunder (based on the mean between the high and low trading prices for a share on the New York Stock Exchange composite tape on such date). Prior to or simultaneously with delivery of the certificate free of restrictions pursuant to paragraph 6.3 above, the Grantee shall provide the Corporation with funds (or, in the discretion of the Corporation, with the equivalent in shares of common stock of the Corporation of such funds) necessary to discharge any applicable withholding obligations.

7. Changes in Capitalization or Organization. Nothing contained in this document shall alter or diminish in any way the right and authority of the Corporation to effect changes in its capital or organizational structure; provided, however, that the following procedures shall be recognized.

7.1. Stock Split, Stock Dividend, or Extraordinary Distribution. In the event the number of outstanding shares of common stock of the Corporation is increased at any time during the Restriction Period by a stock split, by declaration by the Board of Directors of the Corporation of a dividend payable only in shares of such stock, or by any other extraordinary distribution of shares, the number of shares granted pursuant to paragraph 2 above shall be proportionately adjusted.

7.2. Organizational Changes. In the event a merger, consolidation, reorganization, or other change in corporate structure materially changes the terms or value of the outstanding common stock of the Corporation, the number of shares granted pursuant to paragraph 2 above shall be adjusted in such manner as the Committee in its sole discretion shall determine to be equitable and consistent with the purposes of the Plan. Such determination shall be conclusive for all purposes with respect to the grant made in paragraph 2 above.

8. Execution, Delivery, and Performance of Agreement. Grantee shall have no rights with respect to the grant made in paragraph 2 above unless and until such Grantee has executed this Agreement in the space provided below and has delivered one executed copy of same to the Corporation. Grantee likewise shall have no rights with respect to the grant made in paragraph 2 above unless such Grantee has otherwise complied with all the terms and conditions contained in this Agreement.

9. Plan to Govern. The grant made in paragraph 2 above and all other provisions contained in this document shall be subject to and interpreted in a manner consistent with the terms and conditions of the Plan.

USG CORPORATION

By
Chairman of the Board of Directors

ACCEPTED:

Grantee:
Date:

1995

ANNUAL MANAGEMENT INCENTIVE PROGRAM

USG CORPORATION

PURPOSE

To enhance USG Corporation's ability to attract, motivate, reward and retain key employees of the Corporation and its operating subsidiaries and to strengthen the existing mutuality of interest between such key employees and the Corporation's stockholders by offering such key employees, who discharge their accountabilities in a manner which makes a measurable contribution to the Corporation's earnings, incentive award opportunities.

INTRODUCTION

This Annual Management Incentive Program is in effect from January 1, 1995 through December 31, 1995.

ELIGIBILITY

Individuals eligible for participation in this Program are those officers and other key employees occupying management positions having 775 or more points as determined by the Corporation's position evaluation system. Employees who participate in any other annual incentive program of the Corporation or any of its subsidiaries are not eligible to participate in this Program.

GOALS

For the 1995 Annual Management Incentive Program, goal income targets for USG Corporation, Subsidiaries and Profit Centers will be determined by the Compensation and Organization Committee after considering recommendations submitted from USG Corporation, Operating Subsidiaries and Profit Centers respectively. Additionally, Working Capital Management Targets will be established. Profit Center goals will be established which are consistent with Corporate and Operating Subsidiary goals. Except in the case of a Named Executive Officer (as defined in the Administrative Guidelines below), Profit Center goals may be adjusted by the Chairman & CEO of USG Corporation if business conditions or other significant unforeseen circumstances beyond the control of the Profit Center have a major impact on opportunity.

AWARD VALUES

For the 1995 Annual Management Incentive Program, position par values are based on level of accountability and are expressed as a percent of approved position reference point (midpoint). Resulting award opportunities represent a fully competitive incentive opportunity for 100% (target) achievement of Corporate, Operating Subsidiary and/or Profit Center goals:

	POSITION PAR VALUE
USG CORPORATION	
Chairman & CEO - USG Corporation	65% of Reference Point

President & COO - USG Corporation	55% of Reference Point

USG CORPORATION	50% Of Reference Point
Senior Vice President Worldwide Manufacturing & Technology	
Senior Vice President & General Counsel	
Senior Vice President & Chief Administrative Officer	
Senior Vice President & Chief Financial Officer	

GROUP VICE PRESIDENT NORTH AMERICAN GYPSUM;
PRESIDENT & CEO, U.S. GYPSUM COMPANY
GROUP VICE PRESIDENT WORLDWIDE CEILINGS & INTERNATIONAL;
PRESIDENT & CEO, USG INTERIORS, INC
VICE PRESIDENT, USG CORPORATION;
PRESIDENT & CEO, USG INTERNATIONAL, LTD.

USG CORPORATION & OPERATING SUBSIDIARIES	40% of Reference Point
OFFICERS AND MANAGERS	
President & CEO, L&W Supply Corporation	
President & CEO, CGC, Inc.	
Executive Vice President & COO, U.S. Gypsum Company	
Vice President & Treasurer, USG Corporation; Vice President Finance, USG International, Ltd	
Vice President & Controller, Chief Financial Officer North American Gypsum Group, USG Corporation	
Vice President Research	

Executive Vice President, USG Interiors, Inc.	35% of Reference Point
Associate General Counsel, USG Corporation	
Vice President Human Resources - Operations, USG Corporation	

GENERAL MANAGERS (PROFIT CENTER HEADS)	
Sales of $50 Million and over	30% of Reference Point
Sales Under $50 Million	25% of Reference Point

USG CORPORATION, OPERATING SUBSIDIARIES & PROFIT CENTERS
OFFICERS AND MANAGERS

Position Reference Point: $149,520 and Over	30% of Reference Point
Position Reference Point: $121,440 - $149,519	25% of Reference Point
Position Reference Point: $108,360 - $121,439	20% of Reference Point
Position Reference Point: $ 86,820 - $108,359	15% of Reference Point
Position Reference Point: Below $86,820	10% of Reference Point

AWARDS

Incentive awards for all participants in the 1995 Annual Management Incentive Program will be reviewed and approved by the Compensation and Organization Committee of the USG Corporation Board of Directors.

For all participants, the annual incentive award opportunity is the annualized position reference point (midpoint) in effect at the beginning of the calendar year multiplied by the applicable position par value percent.

Incentive awards for 1995 will be based on

- Goal income: (net sales less cost of sales and selling and administrative expenses) based on the Corporation's year-end financial statements.

- WORKING CAPITAL MANAGEMENT: average monthly Net Working Capital (net accounts receivable plus FIFO inventory minus accounts payable) as a percent of annual net sales.

- Personal Performance (except in the case of the nine

(9) most senior executives whose awards are based solely on achievement of financial results).

- Except in the case of a Named Executive Officer, other appropriate performance measures as approved by the Compensation and Organization Committee of the Board of Directors.

1. For participants to qualify for the USG Corporation segment of an award, USG Corporation must achieve 75% or higher of the Corporation's goal income target. For Subsidiary and Profit Center participants to qualify for the Subsidiary/ Profit Center segment of an incentive opportunity, the respective Subsidiary or Profit Center must achieve 75% or higher of its goal income target. The Compensation and Organization Committee may eliminate awards to any participant who fails to receive a personal performance rating of "Achieved Expectations" (85) or better under the Corporation's Performance Planning and Review system (PPR).

2. Once the threshold qualifiers for an incentive award are satisfied, basic incentive award amounts will be determined by Corporate performance achievement which meets or exceeds 75% of the Corporate goal income or by Subsidiary or Profit Center achievements which meet or exceed 75% of their respective goal income targets, according to the following schedule:

Goal Income Achievement	Goal Income Adjustment Factor For Corporate, Subsidiary or Profit Center Performance
Below 75%	0%
75%	50%
80%	60%
90%	80%
100%	100%
110%	120%
120%	140%
140%	180%
150%	200%

3. Basic incentive award amounts are adjusted to the extent that the percent of net working capital to net sales is reduced from the 1994 actual level. Each 0.1 reduction of the percentage will increase basic incentive awards by 2% of par according to the following schedule:

Average Working Capital Percent of Net Sales Reduction in Percentage	Award
0.0	0%
0.1	2%
0.5	10%
1.0	20%
2.0	40%
3.0	60%
4.0	80%
5.0	100%

4. Except with respect to the nine (9) most senior executives, including the Named Executive Officers, whose awards are based solely on achievement of Goal Income and Working Capital Management Targets, incentive awards based upon achievement of Goal Income and adjusted for achievement of Working Capital Management Targets will be further adjusted based upon the eligible participants' individual Incentive Performance Rating derived from the accomplishment of incentive performance targets according to the following schedule:

Individual Personal Performance

Incentive Rating	Adjustment Factor
Distinguished	105.0
	102.5
Excellent	100.0
	97.5
Good	95.0

The maximum incentive award under this Program is 200% of par.

5. Basic incentive award opportunities and calculations of awards for participants will be based on the achievement of specific Corporate, Subsidiary and/or Profit Center goal income targets as displayed below or, except with respect to Named Executive Officers, as otherwise may be established subject to approval of the Chairman and CEO:

Participants	Incentive Award Opportunity/Calculation
USG Corporation	33 1/3% USG Corporation Performance 33 1/3% North American Gypsum Performance 33 1/3% Worldwide Ceilings Performance
North American Gypsum	
Group VP, North American Gypsum; President & CEO, U.S. Gypsum Co	33 1/3% USG Corporation Performance 33 1/3% North American Gypsum Performance 33 1/3% Worldwide Ceilings Performance
VP & Controller, CFO North American Gypsum Group, USG Corporation	25% USG Corporation Performance 50% North American Gypsum Performance 25% Subsidiary Performance
General Mgr - IGD General Mgr - Materials Division Profit Center Staff VP & General Mgr, CGC, Inc (Subject to subsidiary discretion)	20% North American Gypsum Performance 30% Subsidiary Performance 50% Profit Center/Division Performance
President & CEO, CGC, Inc President & General Mgr, YPSA U.S. Gypsum Staff CGC, Inc Staff	20% USG Corporation Performance 30% North American Gypsum Performance 50% Subsidiary Performance
Worldwide Ceilings	
Group VP, Worldwide Ceilings & International; President & CEO, USG Interiors, Inc VP, USG Corporation; President & CEO, USG International, Ltd	33 1/3% USG Corporation Performance 33 1/3% North American Gypsum Performance 33 1/3% Worldwide Ceilings Performance
VP Pacific Rim & General Mgr, Gypsum Fiberboard VP & Managing Director	20% Worldwide Ceilings Performance 30% Subsidiary Performance 50% Regional Performance
USG Interiors, Inc Staff USG International, Ltd Staff	20% USG Corporation Performance 30% Worldwide Ceilings Performance 50% Subsidiary Performance

L&W Supply Corporation

President & CEO	25% USG Corporation Performance 50% North American Gypsum Performance 25% Subsidiary Performance
L&W Supply Corporation Staff	20% USG Corporation Performance 30% North American Gypsum Performance 50% Subsidiary Performance

6. SPECIAL AWARDS

In addition to the incentive opportunity provided by this Program, a special award may be recommended for any participant or non-participant, other than a Named Executive Officer, who has made an extraordinary contribution to the Corporation's welfare or earnings.

7. STRATEGIC TARGETS

In select cases, not including Named Executive Officers and other Corporate Officers and Subsidiary CEOs, where the participant can make an individual, measurable and quantifiable contribution which will have significant impact on the Corporation's financial performance and profitability, up to 25% of the position par or opportunity may be allocated to personal performance. Such allocations require approval of the Chief Executive Officer and Chief Operating Officer of USG Corporation at the beginning of the Program year.

For Corporate, Subsidiary and Profit Center participants with a 25% strategic award allocation, the Incentive Award Opportunity/Calculation will be determined at the beginning of the Program year.

The strategic award opportunity which is available for personal performance will be adjusted to the extent that actual performance exceeds or fails to meet the targeted goal.

GENERAL PROVISIONS

1. The Compensation and Organization Committee of USG Corporation's Board of Directors shall review and approve the awards recommended for officers and other employees who are eligible participants in the 1995 Annual Management Incentive Program. The Compensation and Organization Committee shall submit to the Board of Directors, for their ratification, a report of the awards for all eligible participants including corporate officers approved by the Committee in accordance with the provisions of the Program.
2. The Compensation and Organization Committee shall have full power to make the rules and regulations with respect to the determination of achievement of goals and the distribution of awards. No awards will be made until the Compensation and Organization Committee has certified goal achievement and applicable awards in writing.

3. The judgement of the Compensation and Organization Committee in construing this Program or any provisions thereof, or in making any decision hereunder, shall be final and conclusive and binding upon all employees of the Corporation and its subsidiaries whether or not selected as beneficiaries hereunder, and their heirs, executors, personal representatives and assigns.

4. Nothing herein contained shall limit or affect in any manner or degree the normal and usual powers of management, exercised by the officers and the Board of Directors or committees thereof, to change the duties or the character of employment of any employee of the Corporation or to remove

the individual from the employment of the Corporation at any time, all of which rights and powers are expressly reserved.

5. No award will be paid to a Program participant who is not a regular full-time employee in good standing at the end of the calendar year to which the award applies; except an award which would otherwise be payable based on goal achievement may be recommended in the event of retirement, disability or death or in the event the participant is discharged without cause from the employment of the company during the year.

6. The awards made to employees shall become a liability of the Corporation or the appropriate subsidiary as of December 31, 1995 and all payments to be made hereunder will be made as soon as practicable after said awards have been approved.

ADMINISTRATIVE GUIDELINES

1. Award values will be based on position reference points (midpoints) in effect for each qualifying position at the beginning of the year. Any change in duties, dimensions or responsibilities of a current position resulting in a new evaluation and an increase or decrease in reference points will be applied for Incentive Program purposes on a prorata basis with the respective reference point and par value to apply for the actual number of full months of service at each evaluation except for such a change with respect to a Named Executive Officer, in which case any change in reference points and par value, for any reason, shall not become effective until January 1 of the following year.

2. As provided by the Program, no award is to be paid any participant who is not a regular full-time employee in good standing at the end of the calendar year to which the award applies. However, in the event an eligible participant with three (3) or more months of active service in the Program year subsequently retires, becomes disabled or dies, or is discharged from the employment of the Company without cause, the participant (or beneficiary) will receive an award which would otherwise be payable based on goal achievement, prorated for the actual months of active service during the year.

3. Employees participating in any other incentive or bonus program of the parent Corporation or a Subsidiary who are transferred during the year to a position covered by the Management Incentive Compensation Program (other than a Named Executive Officer) will be eligible to receive a potential award prorated for actual full months of service in the two positions with the respective incentive program and par values to apply. For example, a Marketing Manager promoted to Director, Marketing on August 1, will be eligible to receive a prorata award for seven months based on the Marketing Manager Plan provisions and values, and for five months under the Annual Incentive Program provisions and par values.

4. In the event of transfer of an employee (other than a Named Executive Officer) from an assignment which does not qualify for participation in any incentive or bonus plan to a position covered by the 1995 Annual Management Incentive Program, the employee is eligible to participate in the Annual Incentive Program with any potential award prorated for the actual months of service in the position covered by the Program during the year. A minimum of three months of service in the eligible position is required.

5. Participation during the current Program year for individuals employed from outside the Corporation is possible with any award to be prorated for actual full months of service in the eligible position. A minimum of three full months of service is required for award

consideration.

6. Exceptions to established administrative guidelines can only be made by the Compensation and Organization Committee and only with respect to participants other than Named Executive Officers.

7. For purposes of this Program, a "NAMED EXECUTIVE OFFICER" will include any executive officer who is deemed a "named executive officer" for 1995 under Item 402 (a)(3) of Regulation S-K under the Securities Exchange Act of 1934 and was employed by the Corporation or a Subsidiary on the last day of the year.

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:

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through December 31, 1993
Average common shares outstanding	45,120,120	43,243,497	37,157,672
Loss before extraordinary loss	$ (32)	$ (92)	$ (108)
Primary loss per common share before extraordinary loss	(.71)	(2.14)	(2.90)
Extraordinary loss, net of taxes	-	-	(21)
Primary extraordinary loss per common share	-	-	(0.56)
Net loss available to common stockholders	(32)	(92)	(129)
Primary net loss per common share	(.71)	(2.14)	(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 for the period of January 1 through May 6, 1993 is omitted because, as a result of the Restructuring and implementation of fresh start accounting, per share data is not meaningful.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Consolidated Results (dollars in millions):

	Years ended December 31, 1995	1994	1993*
Net Sales	$ 2,444	$2,290	$ 1,916
Gross Profit	603	517	372
% of net sales	24.7%	22.6%	19.4%
Selling and administrative expenses	244	244	220
% of net sales	10.0%	10.7%	11.5%
Amortization of excess reorganization value	169	169	113
Operating Profit	190	104	39
Calculation of EBITDA:			
Operating profit	190	104	39
Amortization of excess reorganization value	169	169	113
Depreciation and depletion	58	53	54
Other	-	(1)	12
EBITDA	417	325	218
% of net sales	17.1%	14.2%	11.4%

* Due to the May 6, 1993, 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 "Note 6. Financial Restructuring" for information on the Restructuring and implementation of fresh start accounting.) Applicable accounting rules require separate reporting of financial results for the restructured company and the predecessor company. However, information for 1993 is presented in this discussion on an annual basis to facilitate

a meaningful year-to-year comparison.

Net sales of $2,444 million in 1995 represented the fourth consecutive year of improved sales and an increase of $154 million, or 6.7%, over 1994. Net sales in 1994 were up 19.5% over 1993. These increases reflect improved sales for each of USG Corporation's core businesses, North American Gypsum and Worldwide Ceilings. Wallboard selling prices for United States Gypsum Company increased for the third consecutive year in 1995, while wallboard volume was down slightly from the record level set in 1994. Improved ceiling tile sales in 1995 reflect record shipments, surpassing the previous record set in 1994, and higher selling prices.

Gross profit as a percentage of net sales rose to 24.7% in 1995 from 22.6% in 1994 and 19.4% in 1993 due to higher selling prices for the major product lines, partially offset by increased gypsum wallboard unit manufacturing costs. In addition, the 1994 gross profit margin was adversely affected by a $30 million pretax ($17 million after-tax) charge to cost of products sold recorded by U.S. Gypsum primarily to cover the cash portion of two asbestos litigation settlements. (Approximately $24 million of this amount was paid in 1994 and 1995, with the remainder payable in 1996. See "Note 21. Litigation" for information on these settlements.)

Excess reorganization value, which was established in connection with USG's financial restructuring in May 1993 (the "Restructuring"), is currently being amortized over a five-year period. This noncash amortization, which has no tax impact, reduced operating profit by $169 million in each of 1995 and 1994 and by $113 million in 1993.

Because of the continuing amortization of excess reorganization value, the Corporation reports EBITDA (earnings before interest, taxes, depreciation, depletion, amortization and items classified as other (income)/expense). For 1993, EBITDA also excludes the impact of reorganization and extraordinary items and changes in accounting principles. The Corporation believes EBITDA helps to facilitate: (i) comparisons of current and historical results (ii) the monitoring of covenants related to certain long-term debt and (iii) an understanding of cash flow generated from operations that is available for taxes, debt service and capital expenditures. EBITDA amounted to $417 million in 1995, an increase of $92 million, or 28.3%, versus 1994. For 1994, EBITDA amounted to $325 million, an increase of $107 million, or 49.1%, over 1993. (Note: EBITDA should not be considered as an alternative to net earnings as an indicator of operating performance or to cash flows as a measure of overall liquidity.)

Construction Markets

Based on preliminary data issued by the U.S. Bureau of the Census, the Corporation estimates that U.S. housing starts were approximately 1.350 million units in 1995, down 7% from 1994. However, housing starts improved in the second half of 1995, increasing about 11% as compared with the first half of the year. Housing starts of 1.457 million units in 1994 represented a 13% increase over the 1993 level of 1.288 million units. U.S. nonresidential construction grew 10% over 1994, as measured in contracts awarded. In management's estimation, this should have a favorable impact on USG's 1996 sales, because finishing of nonresidential interiors follows contract awards by as much as a year. Repair and remodel activity continued its upward trend in 1995. Demand for wallboard generated by this market increased 5% for the industry and is expected to grow at about the same pace in 1996.

Core Business Results (dollars in millions):

	Net Sales			EBITDA		
	Years ended December 31,			Years ended December 31,		
	1995	1994	1993	1995	1994	1993
North American Gypsum:						
U.S. Gypsum Company	$ 1,309	$ 1,209	$ 970	$ 327	$ 248	$ 148
L&W Supply Corporation	753	659	528	26	15	7
CGC Inc. (gypsum division)	102	110	91	11	15	9
Other subsidiaries	75	90	77	22	28	23
Eliminations	(315)	(288)	(223)	-	(2)	-
Total	1,924	1,780	1,443	386	304	187
Worldwide Ceilings:						
USG Interiors, Inc.	385	400	360	58	53	48
USG International	235	202	185	5	6	4
CGC Inc. (interiors division)	28	29	30	4	3	4
Eliminations	(39)	(37)	(35)	-	-	-
Total	609	594	540	67	62	56
Corporate	-	-	-	(36)	(41)	(25)
Eliminations	(89)	(84)	(67)	-	-	-
Total USG Corporation	2,444	2,290	1,916	417	325	218

North American Gypsum

Net sales of $1,924 million in 1995 for North American Gypsum represented an increase of $144 million, or 8.1%, and EBITDA of $386 million improved $82 million, or 27.0%, compared with 1994. For 1994, net sales of $1,780 million increased $337 million, or 23.4%, while EBITDA of $304 million, which includes the impact of the aforementioned $30 million charge associated with asbestos litigation settlements, increased $117 million, or 62.6%, over 1993.

Results improved in 1995 for U.S. Gypsum compared to 1994 primarily due to higher wallboard selling prices, partially offset by higher unit manufacturing costs and slightly lower wallboard volume. In addition, sales of nonwallboard products such as joint compound and cement board also increased. U.S. Gypsum's average wallboard selling price in 1995 was $110.44 per thousand square feet, an increase of 10.4% compared with the 1994 average price of $100.08, which was up 26.6% over the 1993 average price of $79.07. Higher manufacturing costs reflect increases in the cost of purchased recycled paper, the primary raw material of wallboard paper. Compared with 1994, higher recycled paper costs resulted in an aggregate increase of approximately $28 million in cost of products sold. Shipments of U.S. Gypsum's wallboard totaled 7.6 billion square feet in 1995, compared with 7.7 billion square feet in 1994 and 7.3 billion square feet in 1993. U.S. Gypsum's plants operated at 92% of capacity in 1995, compared with the estimated average rate of 91% for the U.S. industry.

In 1995, L&W Supply Corporation achieved the highest level of sales in its history, reflecting record sales of gypsum wallboard and nonwallboard products. As of December 31, 1995, L&W Supply conducted its business out of 156 centers, an increase of 17 compared with December 31, 1994. On a same-center basis, 1995 sales for L&W Supply also surpassed the previous record set in 1994. EBITDA for L&W Supply improved significantly in each of the past two years as a result of gross profit improvements for all of its product lines.

CGC Inc.'s gypsum business experienced lower net sales and EBITDA in 1995, as wallboard results were adversely affected by the lowest level of housing starts in eastern Canada in 35 years and the higher cost of wallboard paper. Results in 1994 benefited from higher wallboard prices and increased shipments to the United States as compared with 1993.

Worldwide Ceilings

Net sales in 1995 for Worldwide Ceilings rose $15 million, or 2.5%, to $609 million, while EBITDA of $67 million increased $5 million, or 8.1%, compared with 1994. (Excluding results for the domestic floors division, which was divested in December 1994, Worldwide Ceilings' 1995 net sales improved $45 million, or 8.0%, and EBITDA increased $5 million, or 8.1%, versus 1994.) For 1994, net sales of $594 million increased $54 million, or 10.0%, and EBITDA totaled $62 million, an increase of $6 million, or 10.7%, over 1993.

For USG Interiors, Inc., net sales in 1995 and 1994 benefited from record shipments and higher selling prices for ceiling tile. The record volume was largely the result of increased demand from the retail and export markets. EBITDA for USG Interiors continued to improve in 1995, reflecting the increase in selling prices.

USG International also recorded increased net sales in 1995 and 1994, primarily due to growing international markets, especially in the Asia/Pacific region. However, EBITDA declined in 1995 primarily reflecting competitive market conditions in Europe and write-offs of bad debts and obsolete equipment and inventory during the fourth quarter of 1995.

Other Consolidated Earnings Information

Interest expense continued to decline as a result of debt repayment and refinancing activities in 1995 and 1994. Interest expense amounted to $99 million in 1995, down $50 million, or 33.6%, from the 1994 level of $149 million, which was down $29 million, or 16.3%, from $178 million recorded in 1993. For 1994, interest expense included a $16 million pretax ($9 million after-tax) noncash charge for the write-off of reorganization debt discount primarily in conjunction with the Corporation's accelerated payment of bank term loans. For 1993, interest expense included $46 million of interest that was forgiven or converted to equity as a result of the Restructuring.

In the fourth quarter of 1995, the Corporation recorded a $30 million pretax ($24 million after-tax) charge in connection with the planned sale of its insulation manufacturing business in the United States and the closure of its insulation plant in Canada. Included in this charge is a $15 million noncash (no tax impact) write-off of excess reorganization value associated with these businesses. The remainder of the charge primarily reflects a writedown of the assets of these businesses to their net realizable value. The total charge is reflected in other (income)/expense, net in the Consolidated Statement of Earnings.

The Corporation's income tax expense is computed based on pretax earnings excluding the noncash amortization of excess reorganization value, which is not deductible for federal income tax purposes. In 1995, income tax expense amounted to $97 million, compared with $54 million in 1994 and $46 million in 1993. The Corporation's effective tax rates for 1995 and 1994 were 149.0% and negative 142.1%, respectively. Excluding the amortization of excess reorganization value and, in 1995, the aforementioned $15 million write-off of excess reorganization value, the Corporation's 1995 and 1994 effective tax rates were 39.0% and 41.2%, respectively. See "Note 11. Taxes on Income and Deferred Income Taxes" for additional information on income taxes.

The Corporation recorded a net loss of $32 million in 1995. However, this loss included: (i) the noncash amortization of excess reorganization value of

$169 million (ii) the noncash amortization of reorganization debt discount of $4 million included in interest expense and (iii) the $24 million after-tax writedown of the insulation business. Together, these items reduced 1995 net earnings by $197 million, or $4.38 per common share.

A net loss of $92 million in 1994 included: (i) noncash amortizations of excess reorganization value and reorganization debt discount of $169 million and $12 million, respectively (ii) the noncash after-tax write-off of reorganization debt discount amounting to $9 million primarily associated with bank term loans and (iii) the after-tax charge of $17 million associated with asbestos litigation settlements. Together, these items reduced 1994 net earnings by $207 million, or $4.81 per common share.

A net loss of $129 million was recorded in the period of May 7 through December 31, 1993, after the noncash amortizations of excess reorganization value and reorganization debt discount of $113 million and $8 million, respectively, and an after-tax extraordinary loss of $21 million. The extraordinary loss represented the write-off of reorganization debt discount associated with debt issues that were prepaid, redeemed or purchased in connection with a refinancing plan implemented in the first quarter of 1994. See "Note 3. Debt Refinancings" for information on the refinancing plan.

Net earnings of $1,434 million in the period of January 1 through May 6, 1993, included a reorganization items gain of $709 million, an after-tax extraordinary gain of $944 million and an after-tax charge of $150 million related to changes in accounting principles. The reorganization items gain primarily reflected fresh start accounting adjustments. The extraordinary gain primarily reflected a gain on the exchange of subordinated debt for common stock in connection with the Restructuring. See "Note 6. Financial Restructuring" for additional information on these Restructuring-related issues. In the first quarter of 1993, the Corporation recorded a one-time after-tax net charge of $150 million representing the cumulative impact of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and SFAS No. 109, "Accounting for Income Taxes." See "Note 11. Taxes on Income and Deferred Income Taxes" and "Note 16. Postretirement Benefits" for information related to these accounting changes.

Liquidity and Capital Resources

The Corporation, which has significantly strengthened its liquidity and capital resources since the Restructuring in 1993, is currently pursuing a strategy of reducing debt and growing its core gypsum and ceilings businesses through a balanced application of free cash flow between debt reduction and capital expenditures, with an objective of achieving investment grade status.

As a means of enhancing its ability to implement this strategy, the Corporation completed a refinancing in the third quarter of 1995 that included: (i) the establishment of a new seven-year revolving credit facility (the "Revolving Credit Facility") to replace an existing bank credit agreement that was due to expire in 2000 (ii) the sale of $150 million aggregate principal amount of 8.5% senior notes due 2005 and (iii) the redemption of the Corporation's remaining $268 million principal amount of 10.25% senior notes' due 2002 using a combination of proceeds from the sale of the 8.5% senior notes, borrowings under the Revolving Credit Facility and cash on hand. As a result of the refinancing and other debt repayments in 1995, the Corporation reduced its principal amount of total debt to $926 million as of December 31, 1995, from $1,149 million as of December 31, 1994. See "Note 3. Debt Refinancings" and "Note 7. Indebtedness" for additional information on the Revolving Credit Facility.

In the fourth quarter of 1995, the Corporation filed a shelf registration statement with the Securities and Exchange Commission allowing the Corporation to offer from time to time: (i) debt securities consisting of notes, debentures or other evidences of indebtedness in one or more series (ii) shares of $1.00 par value preferred stock in one or more series (iii) shares of $0.10 par value common stock or (iv) warrants to purchase shares of common stock (collectively, the "Offered Securities"), all having an aggregate initial offering price not to exceed $300 million. The Offered Securities may be offered separately or as units with other Offered Securities. The debt securities may be (i) senior or subordinated or (ii) secured or unsecured. The Corporation intends to use the net proceeds from the sale of the Offered Securities for general corporate purposes that may include the repayment of existing indebtedness and the financing of capital expenditures and acquisitions. The shelf registration was declared effective by the Securities and Exchange Commission on January 3, 1996. As of the filing date of the Corporation's 1995 Annual Report on Form 10-K, no securities had been issued pursuant to this registration.

Substantial capital investments to reduce costs and expand capacity were made at North American Gypsum plants in 1995. Cost-reduction projects included the installation of stock-cleaning equipment to utilize lower grades of recycled paper, continued implementation of technology that lowers wallboard weight, and additional use of synthetic gypsum at manufacturing facilities at which it is more economical than natural sources of gypsum rock. Projects completed in 1995 to enhance manufacturing efficiency increased wallboard capacity by approximately 600 million square feet. In the Worldwide Ceilings business, a $45 million expansion under way at USG Interiors' ceiling tile plant in Greenville, Miss., is scheduled for completion in 1996. In 1995, capital expenditures for the Corporation amounted to $147 million compared with $64 million in 1994 and $41 million in 1993. As of December 31, 1995, capital expenditure commitments for the replacement, modernization and expansion of operations amounted to $68 million compared with $61 million as of December 31, 1994. The Corporation's capital investment plans for the next several years contemplate spending approximately one-half of its free cash flow on projects that provide favorable growth and cost-reduction opportunities. In addition, the Corporation periodically evaluates possible acquisitions or combinations involving other businesses or companies in businesses and markets related to its current operations. The Corporation believes that its available liquidity would be generally adequate to support most opportunities and that it has access to additional financial resources to take further advantage of other opportunities.

As of December 31, 1995, working capital (current assets less current liabilities) amounted to $108 million, and the ratio of current assets to current liabilities was 1.28 to 1. As of December 31, 1994, working capital amounted to $228 million, and the ratio of current assets to current liabilities was 1.55 to 1. In 1995, cash and cash equivalents decreased $127 million, or 64.5%, to $70 million, primarily because of debt repayments. Receivables (net of reserves) decreased $24 million, or 8.9%, to $246 million; inventories increased $2 million, or 1.2%, to $175 million; and accounts payable increased $8 million, or 6.6%, to $130 million.

One of the Corporation's subsidiaries, U.S. Gypsum, is a defendant in asbestos lawsuits alleging both property damage and personal injury. Virtually all costs of the Personal Injury Cases are being paid by insurance. However, certain of U.S. Gypsum's insurance carriers continue to contest coverage for the Property Damage Cases, although U.S. Gypsum believes that substantial coverage exists, and the trial court and an appellate court in U.S. Gypsum's Coverage Action have so ruled. 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.

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 "Note 21. Litigation" for more information on legal proceedings and definitions of terms in initial capital letters.

USG CORPORATION
CONSOLIDATED STATEMENT OF EARNINGS
(Dollars in millions, except per share data)

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through Dec. 31, 1993	January 1 through May 6, 1993
Net Sales	$2,444	$2,290	$ 1,325	$ 591
Cost of products sold	1,841	1,773	1,062	482
Gross Profit	603	517	263	109
Selling and administrative expenses	244	244	149	71
Amortization of excess reorganization value	169	169	113	-
Operating Profit	190	104	1	38
Interest expense	99	149	92	86
Interest income	(6)	(10)	(4)	(2)
Other (income)/expense, net	32	3	(8)	6
Reorganization items	-	-	-	(709)
Earnings/(Loss) Before Taxes on Income, Extraordinary Items and Changes in Accounting Principles	65	(38)	(79)	657
Taxes on income	97	54	29	17
Earnings/(Loss) Before Extraordinary Items and Changes in Accounting Principles	(32)	(92)	(108)	640
Extraordinary gain/(loss), net of taxes	-	-	(21)	944
Cumulative effect of changes in accounting principles, net	-	-	-	(150)
Net Earnings/(Loss)	(32)	(92)	(129)	1,434
Loss Per Common Share:				
Before extraordinary loss	(0.71)	(2.14)	(2.90)	
Extraordinary loss	-	-	(0.56)	
Net Loss Per Common Share	(0.71)	(2.14)	(3.46)	

Per share information for the period January 1 through May 6, 1993, is omitted because, as a result of the Restructuring and implementation of fresh start accounting, it is not meaningful.

The notes to financial statements are an integral part of this statement.

USG CORPORATION
CONSOLIDATED BALANCE SHEET
(Dollars in millions)

	As of December 31, 1995	As of December 31, 1994
Assets		
Current Assets:		
Cash and cash equivalents (primarily time deposits)	$ 70	$ 197
Receivables (net of reserves of $14 and $14)	246	270
Inventories	175	173
Total current assets	491	640
Property, Plant and Equipment, Net	842	755
Excess Reorganization Value (net of accumulated amortization of $466 and $282)	379	561
Other Assets	178	168
Total assets	1,890	2,124

Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	130	122
Accrued expenses	190	210
Notes payable	7	1
Long-term debt maturing within one year	35	44
Taxes on income	21	35
Total current liabilities	383	412
Long-Term Debt	865	1,077
Deferred Income Taxes	185	179
Other Liabilities	494	464
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 45,262,539 and 45,083,211 shares (after deducting 33,988 and 33,988 shares held in treasury)	5	5
Capital received in excess of par value	223	221
Deferred currency translation	(6)	(13)
Reinvested earnings/(deficit)	(259)	(221)
Total stockholders' equity/(deficit)	(37)	(8)
Total liabilities and stockholders' equity	1,890	2,124

The notes to financial statements are an integral part of this statement.

USG CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through December 31, 1993	January 1 through May 6, 1993
Operating Activities:				
Net earnings/(loss)	$ (32)	$ (92)	$ (129)	$ 1,434
Adjustments to reconcile net earnings/(loss) to net cash:				
Amortization of excess reorganization value	169	169	113	-
Depreciation, depletion and amortization	67	84	44	22
Deferred income taxes	6	(1)	22	(13)
Net (gain)/loss on asset dispositions	27	(2)	(9)	4
Extraordinary loss	-	-	21	-
Cumulative effect of accounting changes	-	-	-	150
Interest on pay-in-kind debentures	-	-	-	17
(Increase)/decrease in working capital:				
Receivables	24	(20)	49	18
Inventories	(2)	(28)	4	(8)
Payables	(6)	33	14	3
Accrued expenses	(27)	27	29	12
(Increase)/decrease in other assets	(10)	1	9	(12)
Increase in other liabilities	30	30	20	7
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)
Other, net	(10)	(3)	(4)	(3)
Net cash flows (to)/from operating activities	236	198	183	(14)
Investing Activities:				
Capital expenditures	(147)	(64)	(29)	(12)
Net proceeds from asset dispositions	7	16	29	-

Net cash flows to investing activities	(140)	(48)	-	|	(12)
Financing Activities:				|	
Issuance of debt	734	262	36	|	5
Repayment of debt	(957)	(650)	(57)	|	(142)
Proceeds from public offering of common stock	-	224	-	|	-
Decrease in restricted assets	-	-	-	|	32
Net cash flows to financing activities	(223)	(164)	(21)	|	(105)
Net Increase/(Decrease) in Cash and Cash Equivalents	(127)	(14)	162	|	(131)
Cash and cash equivalents as of beginning of period	197	211	49	|	180
Cash and cash equivalents as of end of period	70	197	211	|	49
Supplemental Cash Flow Disclosures:				|	
Interest paid	88	115	73	|	58
Income taxes paid	108	38	5	|	3

The notes to financial statements are an integral part of this statement.

USG CORPORATION
NOTES TO FINANCIAL STATEMENTS

Note 1. 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. 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. Certain amounts in the prior years' financial statements have been reclassified to conform with the 1995 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Excess reorganization value, which was recorded as a result of the implementation of fresh start accounting, is currently being amortized through April 1998. The Corporation continues to evaluate whether events and circumstances have occurred which indicate that 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 "Note 6. Financial Restructuring" for more information on the implementation of fresh start accounting.

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121 on accounting for the impairment and/or disposal of long-lived assets, certain identifiable intangibles and goodwill related to assets to be held and used. As required, the Corporation will adopt SFAS No. 121 on January 1, 1996. At this time, it is the opinion of management that the adoption of this statement will not have any impact on the results of operations or the consolidated financial position of the Corporation.

Note 2. Writedown of Assets

In the fourth quarter of 1995, the Corporation recorded a $30 million pretax ($24 million after-tax) charge in connection with the planned sale of its insulation manufacturing business in the United States and the closure of its insulation plant in Canada. Included in this charge is a $15 million noncash (no tax impact) write-off of excess reorganization value associated with these businesses. The remainder of the charge primarily reflects a writedown of the assets of these businesses to their net realizable value. The total charge is reflected in other (income)/expense, net in the Consolidated Statement of Earnings.

Note 3. Debt Refinancings

In the third quarter of 1995, the Corporation completed a refinancing that included: (i) the establishment of a new seven-year revolving credit facility (the "Revolving Credit Facility") to replace an existing bank credit agreement (the "Old Credit Agreement") that was due to expire in 2000 (ii) the sale of $150 million aggregate principal amount of 8.5% senior notes due 2005 and (iii) the redemption of the Corporation's remaining $268 million principal amount of 10.25% senior notes due 2002 using a combination of proceeds from the sale of the 8.5% senior notes, borrowings under the Revolving Credit Facility and cash on hand. Under the Revolving Credit Facility, the Corporation can borrow up to $500 million, including a $125 million letter of credit subfacility from a syndicate of banks, which are many of the same banks that had been lenders under the Old Credit Agreement. The Revolving Credit Facility provides USG greater financial flexibility as a result of: (i) less-restrictive covenants (ii) the letter of credit subfacility (iii) an expiration in 2002 with no required amortization prior to maturity and (iv) a simplification of the Corporation's capital structure through the elimination of subsidiary guarantees on any of its senior indebtedness.

In the first quarter of 1994, the Corporation implemented a refinancing plan that included: (i) a public offering of 14,375,000 shares of common stock (the "Equity Offering"), of which 7,900,000 shares, yielding net proceeds to the Corporation of $224 million, were issued by the Corporation and 6,475,000 were sold by Water Street Corporate Recovery Fund I, L.P. ("Water Street"), the Corporation's largest stockholder at that time (ii) the issuance of $150 million of senior notes due 2001 to certain institutional investors in exchange for $30 million aggregate principal amount of its outstanding senior notes due 1996, $35 million aggregate principal amount of its outstanding senior notes due 1997 and $85 million in cash and (iii) an amendment of the Old Credit Agreement. In the fourth quarter of 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 prepaid, redeemed or purchased in 1994 in connection with this refinancing plan.

Note 4. Shelf Registration

In the fourth quarter of 1995, the Corporation filed a shelf registration statement with the Securities and Exchange Commission allowing the Corporation to offer from time to time: (i) debt securities consisting of notes, debentures or other evidences of indebtedness in one or more series (ii) shares of $1.00 par value preferred stock in one or more series (iii) shares of $0.10 par value common stock or (iv) warrants to purchase shares of common stock (collectively, the "Offered Securities"), all having an aggregate initial offering price not to exceed $300 million. The Offered Securities may be offered separately or as units with other Offered Securities. The debt securities may be (i) senior or subordinated or (ii) secured or unsecured. The Corporation intends to use the net proceeds from the sale of the Offered Securities for general corporate purposes that may include the repayment of existing indebtedness and the financing of capital expenditures and acquisitions. The shelf registration was declared effective by the Securities and Exchange Commission on January 3, 1996. As of the filing date of the Corporation's 1995 Annual Report on Form 10-K, no securities had been issued pursuant to this registration.

Note 5. Accounts Receivable Facility

In the fourth quarter of 1994, the Corporation entered into an accounts receivable facility (the "Receivables Facility") in which USG Funding Corporation, a special-purpose subsidiary of the Corporation formed under Delaware law, entered into agreements with U.S. Gypsum and USG Interiors. These agreements provide that USG Funding will purchase trade receivables (excluding intercompany receivables owed by L&W Supply) of U.S. Gypsum and USG Interiors as generated, in a transaction designed to be a "true sale" under applicable law. USG Funding is a party to a Master Trust arrangement (the "Master Trust") under which the purchased receivables are then transferred to

Chemical Bank as Trustee to be held for the benefit of certificate holders in such trust. A residual interest in the Master Trust is owned by USG Funding through subordinated certificates. Under a supplement to the Master Trust, certificates representing an ownership interest in the Master Trust of up to $130 million have been issued to Citicorp Securities, Inc. Debt issued under the Receivables Facility will have a final maturity in 2004 but may be prepaid at any time. The interest rate on such debt is fixed at 8.2% through a long-term interest rate swap. Pursuant to the applicable reserve and eligibility requirements, the maximum amount of debt issuable under the Receivables Facility as of December 31, 1995 and 1994 (including $80 million outstanding as of each date) was $98 million and $103 million, respectively. Under the foregoing agreements and related documentation, USG Funding is a separate corporate entity with its own separate creditors that will be entitled to be satisfied out of USG Funding's assets prior to distribution of any value to its shareholder.

As of December 31, 1995 and 1994, the outstanding balance of receivables sold to USG Funding and held under the Master Trust was $142 million and $151 million, respectively, and debt outstanding under the Receivables Facility was $80 million as of each date. Receivables and debt outstanding in connection with the Receivables Facility remain in receivables and long-term debt, respectively, on the Corporation's Consolidated Balance Sheet.

Note 6. 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 United States bankruptcy law (the "Prepackaged Plan"). In accordance with the terms of the Prepackaged Plan, $1.4 billion of debt and accrued interest was converted into equity, interest expense was significantly reduced, and the maturities of a substantial portion of the Corporation's remaining debt were extended. 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 as of May 6, 1993. Excess reorganization value, the portion of the reorganization value not attributable to specific assets, amounted to $851 million and is currently being amortized over a five-year period, effective May 7, 1993. The Corporation recorded a one-time reorganization items gain of $709 million in the period of January 1 through May 6, 1993, which primarily reflected the recording of excess reorganization value. The Corporation also recorded a one-time after-tax extraordinary gain of $944 million in the period of January 1 through May 6, 1993, primarily reflecting gains of $477 million on the exchange of senior subordinated debentures for stock and $456 million on the exchange of junior subordinated debentures for stock and warrants. Due to the Restructuring and implementation of fresh start accounting, financial statements subsequent to May 6, 1993, are not comparable to financial statements prior to that date. Accordingly, such information for 1993 is presented in separate columns in the financial statements and notes thereto.

On a pro forma basis, if the consummation of the Restructuring, including the implementation of fresh start accounting, had occurred on January 1, 1993, the Corporation would have recorded a consolidated loss before extraordinary gain and changes in accounting principles of $175 million for the year ended December 31, 1993. This loss includes pro forma adjustments totaling $707 million, primarily reflecting the reversal of the reorganization items gain, which would have been recorded in 1992 had the Restructuring occurred on January 1, 1993.

Note 7. Indebtedness

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

	As of December 31, 1995	1994
Secured Debt:		
Revolving Credit Facility due 2002	$ 260	$ -
Receivables Facility due 2003 and 2004	80	80

Bank term loans, installments due 1997 through 2000	-	283
Senior notes and debentures:		
8% senior notes due 1996	28	28
8% senior notes due 1997	41	41
9.25% senior notes due 2001	150	150
10.25% senior notes due 2002	-	298
7.875% sinking fund debentures due 2004	22	33
8.5% senior notes due 2005	150	-
8.75% sinking fund debentures due 2017	140	190
Other secured debt, average interest rate 7.6% and 9.4%, varying payments through 2005	14	7
Unsecured Debt:		
Industrial revenue bonds, 5.9% ranging to 8.0%, due through 2020	41	39
Total principal amount of debt	926	1,149
Less unamortized reorganization discount	(19)	(27)
Total carrying amount of debt	907	1,122

On July 27, 1995, the Corporation made effective a seven-year $500 million secured Revolving Credit Facility, which includes a $125 million letter of credit subfacility, with a syndicate of banks under a credit agreement (the "New Credit Agreement"). The Revolving Credit Facility will not require amortization prior to maturity in 2002 and is secured by a pledge of the outstanding capital stock of the Corporation's major domestic subsidiaries, including U.S. Gypsum, USG Interiors, L&W Supply and USG Foreign Investments, Ltd. However, security will be permanently released at such time as the Corporation's senior public debt is rated investment grade.

The New Credit Agreement contains material restrictions on the operation of the Corporation's business, including, without limitation, covenants pertaining to: (i) liens (ii) sale and leaseback transactions (iii) investments, provided that this covenant would no longer apply once the Corporation's senior public debt rating is investment grade (iv) mergers, consolidations and sales of assets with respect to the Corporation and major subsidiaries (v) acquisitions of businesses not related to the building materials industry (vi) dividends, distributions and repurchases of stock and subordinated debt, provided that this covenant would no longer apply once the Corporation's senior public debt rating is investment grade (vii) use of proceeds, provided that the use of proceeds arising from the issuance of additional debt and equity will be at the Corporation's discretion (viii) debt or guarantees thereof (ix) restrictions in other agreements on the ability of subsidiaries to declare and pay dividends and (x) financial covenants or events of default in other debt agreements that are more restrictive than those contained in the New Credit Agreement. The negative covenants contain certain exceptions to the restrictions imposed upon the operation of the Corporation's business.

As of December 31, 1995, outstanding revolving loans totaled $260 million and letters of credit issued and outstanding amounted to $52 million, leaving the Corporation with $188 million of unused and available credit under the Revolving Credit Facility. The revolving loans bear interest at the London Interbank Offered Rate ("LIBOR") as determined from time to time plus an applicable spread based on the Corporation's net debt to EBITDA ratio (as defined in the New Credit Agreement) for the preceding four quarters. As of December 31, 1995, the applicable spread was .75%. The average rate of interest on the revolving loans was 6.8% during the period of July 27 through December 31, 1995. See "Note 8. Financial Instruments and Risk Management" for information on instruments used by the Corporation to manage the impact of interest rate changes on LIBOR-based bank debt.

The average rate of interest on the bank term loans under the Old Credit Agreement was 8.2% in the period of January 1 through July 26, 1995, and 6.4% in the year ended December 31, 1994.

The weighted average interest rate on outstanding short-term borrowings was 6.2% and 9.2% as of December 31, 1995 and 1994, respectively.

The fair market value of total debt outstanding was $928 million and $1,109 million as of December 31, 1995 and 1994, respectively, based on indicative bond prices as of those dates, excluding other secured debt, the fair market value of which was not practicable to estimate.

As of December 31, 1995, aggregate scheduled maturities of long-term debt, excluding amounts classified as current liabilities, were $42 million, zero,

$3 million and $4 million for the years 1997 through 2000, respectively.

Note 8. Financial Instruments and Risk Management

The Corporation has limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate and energy cost risks as well as occasional foreign currency exchange exposure. The following table presents the carrying amounts and estimated fair value of theCorporation's derivative portfolio (dollars in millions):

	As of December 31, 1995	1994
Interest Rate Contracts:		
Notional amount	$ 305	$ 545
Carrying amount	3	5
Fair value	(21)	8
Energy Price Swaps:		
Notional amount	33	23
Carrying amount	-	-
Fair value	2	(1)

The amounts reported as fair value represent the market value as obtained from broker quotations. The negative fair values are estimates of the amounts the Corporation would need to pay as of December 31, 1995 and 1994, to cancel the contracts or transfer them to other parties.

The Corporation is exposed to credit losses in the event of nonperformance by the counterparties on all its derivative contracts but has no off-balance-sheet credit risk of accounting loss. All counterparties have investment grade credit standing; accordingly, the Corporation anticipates that these counterparties will be able to satisfy fully their obligations under the contracts. The Corporation does not obtain collateral or other security to support financial instruments subject to credit risk but monitors the credit standing of counterparties.

Interest Rate Risk Management

The Corporation enters into swap agreements and purchases interest rate caps to manage the impact of interest rate changes on LIBOR-based bank debt. As of December 31, 1995, the Corporation owned interest rate caps that cap the Corporation's expected LIBOR-based interest payments on $100 million notional principal at 5.0% for 1995, 7.0% for 1996 and 6.7% for 1997. The Corporation also entered into various interest rate swap agreements whereby the Corporation pays a fixed rate in exchange for LIBOR. As of December 31, 1995, the Corporation has agreements in place to pay 7.1% in exchange for LIBOR on $125 million notional principal for the years 1995 through 2000 and on $50 million notional principal for 2001 and 2002. In addition, the Corporation has entered into $80 million of interest rate swap agreements to hedge its Receivables Facility on which the interest payments are based on commercial paper rates. Under these agreements, the Corporation pays a fixed rate of 8.2% in exchange for the monthly commercial paper rate due on the Receivables Facility.

As of December 31, 1994, the Corporation owned interest rate caps which capped the Corporation's expected LIBOR-based bank debt interest payments at 5.2% for 1995 ($250 million notional principal), 7.0% for 1996 ($120 million notional principal) and 7.0% for 1997 ($75 million notional principal). Additionally, as of December 31, 1994, the Corporation had $100 million of interest rate swap agreements to hedge its Receivables Facility.

Premiums paid for purchased interest rate cap agreements are amortized to interest expense over the term of the caps. Unamortized premiums are included in other assets on the Consolidated Balance Sheet. Amounts receivable under cap agreements and receivables or payables under swap agreements are accrued as an increase or decrease to interest expense as appropriate.

Energy Cost Risk Management

The Corporation uses energy price swap agreements to hedge anticipated purchases of fuel to be utilized in the manufacturing process for gypsum wallboard and ceiling tile. Under these swap agreements, the Corporation receives or makes payments based on the differential between a specified price and the actual closing price for the current month's energy price contract. As of December 31, 1995 and 1994, the Corporation had over-the-counter swap agreements to exchange monthly payments on notional amounts of energy amounting to $33 million and $23 million, respectively, all extending one year or less.

Upon settlement of energy price contracts, the resulting gain or loss is included in cost of products sold, along with the actual spot energy cost of the corresponding underlying hedged transaction, the combination of which amounts to the predetermined specified contract price.

Foreign Exchange Risk Management

The Corporation had no foreign currency exchange contracts as of December 31, 1995 and 1994.

Note 9. Cumulative Effect of Changes in Accounting Principles

A one-time after-tax charge of $150 million was recorded in the first quarter of 1993. This represented the adoption of 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 "Note 16. Postretirement Benefits" and "Note 11. Taxes on Income and Deferred Income Taxes" for information on the adoption of these standards. Neither of these standards impacts cash flow.

Note 10. Research and Development

Research and development expenditures are charged to earnings as incurred and amounted to $18 million and $17 million in the years ended December 31, 1995 and 1994, respectively; $10 million in the period of May 7 through December 31, 1993; and $4 million in the period of January 1 through May 6, 1993.

Note 11. Taxes on Income and Deferred Income Taxes

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

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through December 31, 1993	January 1 through May 6, 1993
U.S.	$ 73	$ (42)	$ (72)	$ 483
Foreign	(8)	4	(7)	174
Total	65	(38)	(79)	657

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

Years ended December 31,	May 7 through December 31,	January 1 through May 6,

	1995	1994	1993	1993
Current:				
Federal	$ 67	$ 39	$ 12	$ 13
Foreign	10	12	5	2
State	15	10	1	-
	92	61	18	15
Deferred:				
Federal	7	(7)	11	-
Foreign	(2)	-	-	2
State	-	-	-	-
	5	(7)	11	2
Total	97	54	29	17

The difference between the actual provision for taxes on income and the provision for taxes on income at the U.S. federal statutory rate (35% for the years ended December 31, 1995 and 1994, and the period of May 7 through December 31, 1993, and 34% for the period of January 1 through May 6, 1993) is as follows (dollars in millions):

	Years ended December 31, 1995	1994	May 7 through December 31, 1993	January 1 through May 6, 1993
Taxes on income at federal statutory rate	$ 23	$ (13)	$ (28)	$ 223
Excess reorganization value amortization	64	59	39	-
Foreign earnings subject to different tax rates	2	4	9	9
State income tax, net of federal benefit	10	6	-	-
Percentage depletion	(3)	(3)	-	-
Statutory rate adjustment to historical deferred taxes	-	-	3	-
Change in valuation allowance	-	-	3	15
Nontaxable effects of adopting fresh start accounting	-	-	-	(272)
Capitalized restructuring fees	-	-	-	13
Unbenefited NOL Carryforward	-	-	-	15
Other, net	1	1	3	14
Provision for taxes on income	97	54	29	17
Effective income tax rate	149.0%	(142.1%)	(36.7%)	2.6%

Significant components of the Corporation's deferred tax (assets)/liabilities are as follows (dollars in millions):

	As of December 31, 1995	1994
Property, plant and equipment	$ 160	$ 164
Debt discount	8	11
Deferred tax liabilities	168	175
Pension and postretirement benefits	(92)	(94)
Reserves not deductible until paid	(86)	(71)
Other	3	(6)
Deferred tax assets before valuation allowance	(175)	(171)
Valuation allowance	90	90
Deferred tax assets	(85)	(81)
Net deferred tax liabilities	83	94

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 to the Corporation's net operating loss carryforwards (the "NOL Carryforwards") as a result of the Restructuring, no deferred tax asset is recorded. Under fresh start accounting rules, any benefit realized from utilizing $85 million of the valuation allowance and the NOL Carryforwards will not impact net earnings.

The Corporation has NOL Carryforwards of $19 million remaining from 1992 after using approximately $30 million in 1995 and $50 million in 1994 to offset U.S. taxable income in those years. These NOL Carryforwards may be used to offset U.S. taxable income through 2007. The Internal Revenue Code limits 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 Internal Revenue Code to the exchange of stock for debt, the Corporation's NOL Carryforwards to 1994 and later years could be reduced or eliminated. The Corporation has a $4 million minimum tax credit that may be used to offset U.S. regular tax liability in future years.

The Corporation does not provide for U.S. income taxes on the portion of undistributed earnings of foreign subsidiaries that are intended to be permanently reinvested. The cumulative amount of such undistributed earnings totaled approximately $106 million as of December 31, 1995. Any future repatriation of undistributed earnings would not, in the opinion of management, result in significant additional 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, were not restated to reflect the adoption of this standard.

Note 12. Inventories

Most of the Corporation's domestic inventories are valued under the last-in, first-out ("LIFO") method. As of December 31, 1995 and 1994, the LIFO values of these inventories were $122 million and $121 million, respectively, and would have been higher by $7 million and $5 million, respectively, 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, 1995	1994
Finished goods and work in process	$ 107	$ 102
Raw materials	60	62
Supplies	8	9
Total	175	173

The LIFO value of U.S. domestic inventories under fresh start accounting exceeded that computed for U.S. federal income tax purposes by $30 million as of December 31, 1995 and 1994.

Note 13. Property, Plant and Equipment

Provisions for depreciation of property, plant and equipment 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 additions. Property, plant and equipment classifications were as follows (dollars in millions):

	As of December 31, 1995	1994
Land and mineral deposits	$ 58	$ 56
Buildings and realty improvements	245	230
Machinery and equipment	676	549
	979	835
Reserves for depreciation and depletion	(137)	(80)
Total	842	755

Note 14. Leases

The Corporation leases certain of its offices, buildings, machinery and equipment, and autos under noncancelable operating leases. These leases have various terms and renewal options. Lease expense amounted to $41 million and $37 million in the years ended December 31, 1995 and 1994, respectively; $22 million in the period of May 7 through December 31, 1993; and $11 million in the period of January 1 through May 6, 1993. Future minimum lease payments required under operating leases with initial or remaining noncancelable terms in excess of one year as of December 31, 1995, were $31 million in 1996, $27 million in 1997, $22 million in 1998, $17 million in 1999 and $14 million in 2000. The aggregate obligation subsequent to 2000 was $21 million.

Note 15. 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 final years of employment. The Corporation's contributions are made in accordance with independent actuarial reports. In 1995, the Corporation made a special funding of $16 million and a normal funding of $5 million to one of its plans. Minimal funding was required for most plans in 1994 and in the periods of May 7 through December 31, 1993, and January 1 through May 6, 1993. Net pension expense included the following components (dollars in millions):

	Years ended December 31, 1995	1994	May 7 through December 31, 1993	January 1 through May 6, 1993
Service cost-benefits earned during the period	$ 9	$ 11	$ 7	$ 3
Interest cost on projected benefit obligation	35	31	21	11
Actual (return)/loss on plan assets	(72)	1	(37)	(15)
Unrecognized prior service cost	-	-	-	1
Net amortization/(deferral)	38	(35)	16	2
Net pension expense	10	8	7	2

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, 1995 and 1994. 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, 1995	1994
Amount of assets available for benefits:		
Funded assets of the plans at fair		

market value	$ 427	$ 370
Accrued pension expense	23	29
Total assets of the plans	450	399
Present value of estimated pension obligation:		
Vested benefits	344	300
Nonvested benefits	31	25
Accumulated benefit obligation	375	325
Additional benefits based on projected future salary increases	110	79
Projected benefit obligation	485	404
Projected benefit obligation in excess of assets	(35)	(5)

The projected benefit obligation in excess of assets consisted of an unrecognized net loss in each period 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 years ended December 31, 1995 and 1994. The assumed weighted average discount rate used in determining the accumulated benefit obligation was 7.25% and 8.25% as of December 31, 1995 and 1994, respectively. The rate of increases in projected future compensation levels was 5% for both years.

Note 16. 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 (dollars in millions):

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through December 31, 1993	January 1 through May 6, 1993
Service cost of benefits earned	$ 4	$ 6	$ 4	$ 1
Interest on accumulated post-retirement benefit obligation	13	12	9	5
Net amortization/(deferral)	(1)	-	-	-
Net periodic postretirement benefit cost	16	18	13	6

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

	As of December 31, 1995	As of December 31, 1994
Accumulated postretirement benefit obligation:		
Retirees	$ 99	$ 81
Fully eligible active participants	15	11
Other active participants	71	59
	185	151
Unrecognized net gain/(loss)	16	42
Accrued postretirement benefit cost liability recognized on the Consolidated Balance Sheet	201	193

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 9% and 10% as of December 31, 1995 and 1994, respectively, with a rate gradually declining to 5% by 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 by $20 million as of December 31, 1995 and 1994, and increase the net periodic postretirement benefit cost by $2 million and $3 million for the years ended December 31, 1995 and 1994, respectively. The assumed discount rate used in determining the accumulated postretirement benefit obligation was 7.25% and 8.25% as of December 31, 1995 and 1994, respectively.

Effective January 1, 1993, the Corporation adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," for its retiree benefit plans. The Corporation elected to recognize this change in accounting principle 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.

Note 17. Management Performance Plan

In 1995, an additional 900,000 shares of common stock were reserved in accordance with the Long-Term Equity Plan that was approved by the stockholders of the Corporation at the annual meeting on May 10, 1995. As permitted by the Prepackaged Plan, a certain number of common shares were reserved for future issuance in conjunction with stock options. Options were granted in 1993 and 1994 at an exercise price equal to the mean of the high and low sales prices for a share of the Corporation's common stock as reported on the New York Stock Exchange composite tape on the grant dates. 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 and expire on the 10th anniversary of the date of the 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.

On May 6, 1993, all outstanding stock options were canceled without consideration, and all shares of restricted and deferred stock were cashed out pursuant to "change in control" provisions contained in the Management Performance Plan, except for 25,580 shares of restricted stock and awards for deferred stock yet to be issued, which remained outstanding as a consequence of certain waivers of the change in control event by senior members of management. Those shares that remained outstanding on May 6, 1993, were freed of restrictions in 1994, an acceleration from the original terms, which freed the restrictions on incremental portions of the shares through 1998.

Stock option activity was as follows:

	Years ended December 31, 1995	1994
Outstanding at beginning of period	2,764,500	1,673,000
Granted	-	1,161,500
Exercised (at prices ranging from $10.3125 to $21.875 per share)	(172,555)	(23,800)
Canceled	(31,845)	(46,200)
Outstanding at end of period (at prices ranging from $10.3125 to $32.5625 per share)	2,560,100	2,764,500
Exercisable at end of period	1,369,295	578,020
Available for grant at end of period	929,395	50

The FASB issued a new standard, SFAS No. 123, on accounting for stock-based compensation that the Corporation will adopt on January 1, 1996. As permitted, the Corporation will continue its current method of accounting for stock-based compensation and will comply with the new disclosure requirements of this standard.

Note 18. Preferred Share Purchase Rights

On May 6, 1993, a rights plan (the "Rights Agreement") was adopted pursuant to which the Corporation declared a distribution of one right (the "Rights") upon each share of common stock. The Rights, which are intended to protect the Corporation and its stockholders in the event of an unsolicited attempt to acquire the Corporation, generally become exercisable 10 days following the announcement of the acquisition of 20% or more of the outstanding common stock by someone other than the Corporation or one of its employee benefit plans (10% in the case of an acquisition that the Corporation's Board of Directors determines to represent a threat of acquisition not in the best interests of the Corporation's stockholders) or 10 business days after commencement of a tender offer for 30% or more of the outstanding 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. The Rights also provide for a so-called "flip-in" feature and an exchange feature.

In the event that the Corporation is the surviving corporation and its common stock remains outstanding and unchanged in a merger or other business combination with such acquiring party or the acquiring party engages in one of a number of self-dealing transactions specified in the Rights Agreement, or in the event that there is a 10% acquisition that the Board of Directors determines to represent a threat of acquisition not in the best interests of the Corporation's stockholders, each holder of a Right, other than the acquiring party, will thereafter have the right, subject to the exchange feature, 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.

Note 19. Warrants

As of December 31, 1995 and 1994, outstanding warrants amounted to 2,592,228 and 2,594,181, respectively. 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.

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, in addition to common stock, were issued to holders of certain debt that was converted to equity in the Restructuring. 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.

Note 20. Stockholders' Equity

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

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through December 31, 1993	January 1 through May 6, 1993
Common Stock:				
Beginning balance	$ 5	$ 4	$ 4	$ 5
Equity Offering	-	1	-	-
Reverse stock split	-	-	-	(4)
Issuance of new common stock	-	-	-	3
Ending balance	5	5	4	4
Capital Received in Excess of Par Value:				
Beginning balance	221	-	-	23
Equity Offering	-	223	-	-
Restructuring adjustment	-	-	-	444
Fresh start accounting adjustment	-	-	-	(467)
Other, net	2	(2)	-	-

Ending balance	223	221	-	|	-
				|	
Deferred Currency Translation:				|	
Beginning balance	(13)	(9)	-	|	(8)
Change during the period	7	(4)	(9)	|	1
Fresh start accounting adjustment	-	-	-	|	7
Ending balance	(6)	(13)	(9)	|	-
				|	
Reinvested Earnings/(Deficit):				|	
Beginning balance	(221)	(129)	-	|	(1,900)
Net earnings/(loss)	(32)	(92)	(129)	|	1,434
Fresh start accounting adjustment	-	-	-	|	467
Other, net	(6)	-	-	|	(1)
Ending balance	(259)	(221)	(129)	|	-
				|	
Total stockholders' equity/(deficit)	(37)	(8)	(134)	|	4

There were 33,988 shares of $0.10 par value common stock held in treasury as of December 31, 1995 and 1994. These shares were acquired through the forfeiture of restricted stock and the surrender of shares in settlement of tax withholding obligations.

In 1994, the Corporation implemented the Equity Offering under which 14,375,000 shares of common stock were sold to the public, consisting of 7,900,000 shares issued by the Corporation and 6,475,000 sold by Water Street. Net proceeds to the Corporation from the Equity Offering amounted to $224 million. The Corporation did not receive any proceeds from the sale of shares by Water Street.

Note 21. 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 1930s; 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 seek to recover compensatory and in many cases punitive damages for personal injury allegedly resulting from exposure to asbestos and asbestos-containing products (the "Personal Injury Cases"). 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 $465 million of insurance remained potentially available as of December 31, 1995. 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, Ill., 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 seven insurance carriers that provided comprehensive general liability insurance coverage to U.S. Gypsum between the 1940s and 1984. As discussed below, 10 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 $8.2 million in 1993 and $33.4 million in 1994. In 1995, insurance payments exceeded aggregate asbestos-related costs by approximately $10 million due to the receipt of reimbursement in 1995 of amounts expended in prior years.

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. As of December 31, 1995, 32 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 below, involve multiple buildings. In addition, approximately 23 property damage claims have been threatened against U.S. Gypsum. 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.

Class Actions: U.S. Gypsum is one of many defendants in three pending cases that have been certified as class actions, including one that recently has been settled, as well as others that request such certification. The damages claimed against U.S. Gypsum in the class action cases are unspecified. On October 10, 1995, U.S. Gypsum agreed to settle a class action 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.) Under the settlement agreement, which will require court approval after notice to the class, U.S. Gypsum will pay $3.6 million, with half paid during 1995 and the remainder payable over the following 18 months. The remaining two class actions are a conditionally certified class 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.), and a class action on behalf of various public bodies in the State of Texas, including cities, counties, hospitals, port authorities and colleges. (Kirbyville Independent School District v. U.S. Gypsum Co., et al., United States District Court for the Eastern District of Texas, Beaumont Division)

During 1994, U.S. Gypsum settled two other class actions that are now closed. One suit was 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. The other class action settlement involved approximately 333 school districts in Michigan that had opted out of the nationwide class action. (Board of Education of the City of Detroit, et al. v. The Celotex Corp., et al., Circuit Court for Wayne County, Mich.) The Michigan settlement was approved by the court on December 2, 1994, and no appeal was filed. The settlement of the nationwide class action was approved on September 13, 1995, and became final on October 12, 1995.

A case pending in state court in South Carolina, which has not been certified as a class action, purports 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 other described class actions (Anderson County Hospital v. W.R. Grace & Co., et al., Court of Common Pleas, Hampton Co., S.C.) (the "Anderson Case"). The Anderson Case also names the Corporation as a defendant, alleging, 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. In July 1994, the court in the Anderson Case ruled that claims involving building owners outside South Carolina cannot be included in the suit.

Results to Date: In total, U.S. Gypsum has settled approximately 95 Property Damage Cases, involving 211 plaintiffs, in addition to the 3 class action settlements referred to above. Twenty-four cases have been tried to verdict, 15 of which were won by U.S. Gypsum and 5 lost; 3 other cases, 1 won at the trial level and 2 lost, were settled during appeals. Another case that was lost at the trial court level was reversed on appeal and remanded to the trial court, which has now entered judgment for U.S. Gypsum. In the cases lost, compensatory damage awards against U.S. Gypsum have totaled $11.5 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; and 2 were settled during the appellate process.

During 1993, 5 Property Damage Cases were filed against U.S. Gypsum, 7 cases 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 1994, 5 Property Damage Cases were filed against U.S. Gypsum, 5 cases were dismissed before trial, 19 were settled, 1 was closed following trial or appeal, and 41 were pending at year-end. U.S. Gypsum expended $40.6 million for the defense and resolution of Property Damage Cases and received insurance payments of $9 million in 1994. In 1995, 3 Property Damage Cases were filed against U.S. Gypsum, 7 cases were dismissed before trial, 3 were settled, 2 were closed following trial or appeal, and 32 were pending at year-end. U.S. Gypsum expended $36 million for the defense and resolution of Property Damage Cases and received insurance payments of $48.6 million in 1995.

Estimated Cost: 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 that 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 50,000 claimants pending as of December 31, 1995, although, as discussed below, approximately 15,000 of such claims are settled but not yet closed, and another 8,000 of such claims are enjoined from proceeding because they did not opt out of the Georgine class action referred to below. 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.

Center for Claims Resolution: 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 awarded, 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.

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 the average settlement cost may 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.

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. During 1994, approximately 14,000 Personal Injury Cases were filed against U.S. Gypsum; U.S. Gypsum was added as a defendant in approximately 4,000 cases that had been previously filed; and approximately 23,000 were settled or dismissed. U.S. Gypsum incurred expenses of $38 million in 1994 with respect to Personal Injury Cases, of which $37.3 million was paid by insurance. During 1995, approximately 13,000 Personal Injury Cases were filed against U.S. Gypsum, and 17,600 were settled or dismissed. U.S. Gypsum incurred expenses of $32.1 million in 1995 with respect to Personal Injury Cases, of which $30.9 million was paid by insurance. As of December 31, 1995, 1994, and 1993, approximately 50,000, 54,000, and 59,000 Personal Injury Cases were outstanding against U.S. Gypsum, respectively.

Georgine Class Action Settlement: On January 15, 1993, U.S. Gypsum and the other members of the Center entered into a class action settlement 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.") The class of plaintiffs includes all persons who have been occupationally exposed to asbestos-containing products manufactured by the defendants, who had not filed an asbestos personal injury suit or "opt out" request as of January 24, 1994. The settlement has been approved by the district court and, if upheld on appeal, will provide an administrative compensation system that will replace judicial claims for all future Personal Injury Cases, except as noted below. The Georgine settlement 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. Each of the defendants has committed to fund a defined portion of the settlement, up to a stated maximum amount, over the initial 10-year period of the agreement (which is automatically extended unless terminated by the defendants). In each year, a limited number of class members 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. In addition, approximately 82,000 purported class members "opted out," or elected to be excluded from, the settlement, thus retaining the right to file suit in the court system without regard to the provisions of Georgine. Claimants who attempt to file suit in the courts but have not opted out of Georgine, including approximately 8,000 of the personal injury claims pending on December 31, 1995, have been enjoined from proceeding against the Center members in the courts and will be required to pursue their claims against them under the administrative procedures in Georgine. This injunction is currently on appeal.

The Center members, including U.S. Gypsum, have instituted proceedings against those of their insurance carriers that had not consented to support the settlement. The action seeks 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 nonconsenting insurers.

Estimated Cost: Assuming that the Georgine settlement is implemented in its current form (which depends on the outcome of further proceedings), and based upon figures provided by the Center, management estimates U.S. Gypsum's maximum total exposure in Personal Injury Cases (other than Georgine "opt out" cases) during the next 10 years at approximately $210 million, of which approximately $195 million is expected to be paid by insurance. This estimated exposure encompasses four components. First, U.S. Gypsum, through the Center, has reached settlements in approximately 15,000 of the Personal Injury Cases pending on December 31, 1995, for amounts totaling approximately $25 million, to be expended over a three- to five-year period. Second, the Center estimates that the remaining approximately 26,000 pending Personal Injury Cases that are not subject to the Georgine injunction can be settled for an amount between $40 million and $50 million. This estimate is based primarily upon the Center's and U.S. Gypsum's experience in the Personal Injury Cases disposed of to date and takes into account a number of uncertainties. Third, the Center has calculated U.S. Gypsum's contribution to the Georgine settlement over its 10-year initial term to be a maximum of $120 million. The estimated cost of Georgine is based upon the maximum number of claims that could be processed in each year and the total amount to be made available to the claimants over the 10-year period. U.S. Gypsum's actual contribution to Georgine may be lower, depending upon the number and severity of claims that are filed. Finally, the Center estimates U.S. Gypsum's share of legal fees and expenses at approximately $15 million.

The above figures do not include possible future Personal Injury Cases filed by persons who opted out of the Georgine class action. U.S. Gypsum's additional exposure for future "opt out" claims would depend on the number and severity of any 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 from the personal injury portion of the Coverage Action because they 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.

Property Damage Coverage: In the property damage phase of the Coverage Action, the applicability of U.S. Gypsum's insurance policies to settlements and to one adverse judgment in eight "test" Property Damage Cases has been decided. On November 4, 1994, the Illinois Appellate Court issued a ruling affirming in part and reversing in part an earlier trial court ruling. The Appellate Court ruled that the eight "test" cases were covered under all insurance policies in effect from the date of installation to the date of removal of asbestos-containing products (known as the "continuous trigger" of coverage). The Court awarded reimbursement of approximately $6.2 million spent by U.S. Gypsum to resolve the eight "test" cases. The defendant carriers' rehearing petition was denied by the Appellate Court in January 1995, and on April 5, 1995, the Illinois Supreme Court denied the insurers' petition for leave to appeal to that Court. Although the appellate process has effectively concluded, further proceedings will be necessary in the trial court to apply the Appellate Court's ruling to all Property Damage Cases other than the eight "test" cases, as well as to resolve certain other remaining issues, some of which could, if determined adversely to U.S. Gypsum, affect the amount or accessibility of available coverage. No schedule has yet been established for the resolution of these issues.

The "continuous trigger" ruling, if applied to the Property Damage Cases generally, and subject to the resolution of the remaining issues referred to above, will allow U.S. Gypsum access to all of its available insurance coverage for Property Damage Cases (although the same coverage must also be used for Personal Injury Cases). Under the continuous trigger, all Property Damage Cases would be covered by insurance unless or until such insurance becomes exhausted. In addition, if applied to the Property Damage Cases generally, the ruling gives U.S. Gypsum the right to reimbursement of its past property damage expenditures, subject to the resolution of the remaining issues referred to above, and further subject to the allocation of costs to insolvent carriers, excess carriers with no defense cost obligations, and carriers that have previously settled. Pursuant to three settlements reached since the appellate ruling, described below, U.S. Gypsum is receiving approximately $67 million from three carriers to reimburse it for past property damage expenses. U.S. Gypsum is also pursuing approximately $60 million from another carrier that it contends is liable for reimbursement of U.S. Gypsum's past expenditures. The timing and amount of additional recoveries for past expenses will depend upon the outcome of settlement negotiations with that carrier or, if a settlement cannot be reached, upon the ultimate resolution of the remaining issues referred to above.

Settlements: Ten carriers, including three 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 paid all or a substantial portion of their policy limits to U.S. Gypsum between 1991 and 1995. Another carrier, which provided both primary and excess policies to U.S. Gypsum during the 1960s and 1970s, has agreed to pay U.S. Gypsum a total of $38.4 million, $25 million of which was paid in April 1995 with the rest to be paid in three annual installments. In August 1995, another carrier that provided both primary and excess insurance (and is a Supporting Insurer) agreed to pay U.S. Gypsum approximately $25 million to reimburse U.S. Gypsum for past property damage costs and to make its remaining $18 million of unexhausted coverage available for future costs as they are incurred. Approximately $19 million of the $25 million was paid in December 1995, with the rest expected in early 1996. An additional carrier, which provided $2 million of coverage per year for a 22-month period in the 1960s, paid U.S. Gypsum $4.2 million in January 1996 as reimbursement for past costs. Three other excess carriers, including two 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.

Taking into account the above settlements, including participation of certain of the settling carriers in the Wellington Agreement and insurance consumption through December 31, 1995, carriers providing a total of approximately $125 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 $150 million of coverage that was unexhausted as of December 31, 1995, 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 continues to seek negotiated resolutions with its carriers in order to minimize the expense and delays of litigation.

Insolvent Carriers: 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 likely 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.

Conclusion

It is not possible to predict the number of additional lawsuits alleging asbestos-related claims that may be filed against U.S. Gypsum. Because reliable information concerning U.S. Gypsum's exposure is lacking in many of the Property Damage Cases, the liability therefrom is 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 adopted the requirements of FASB Interpretation No. 39. At that time, in accordance with Interpretation No. 39, U.S. Gypsum recorded an accrual of $100 million for its liabilities for asbestos-related matters that are deemed probable and can be reasonably estimated and separately recorded an asset of $100 million, 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, the liability and asset recorded in 1994 relate only to pending Personal Injury Cases. The implementation of Interpretation No. 39 did not impact earnings, cash flow 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 estimated 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.

Note 22. Industry and Geographic Segments

Through its subsidiaries, USG Corporation is a leading manufacturer of building materials, producing a wide range of products for use in new residential and nonresidential construction and repair and remodel, as well as products used in certain industrial processes. The Corporation's operations are organized into two core businesses: North American Gypsum, which manufactures and markets gypsum wallboard and related products in the United States, Canada and Mexico; and Worldwide Ceilings, which manufactures and markets ceiling tile, ceiling grid and other interior systems products worldwide. Distribution is carried out through L&W Supply Corporation, a wholly owned subsidiary of the Corporation, home improvement centers and other retailers, building materials dealers, contractors and distributors.

Transactions between geographic areas are accounted for on an "arm's-length" basis. Intercompany transfers between geographic areas are not material. No single customer accounted for 10% or more of consolidated net sales. Export sales to foreign unaffiliated customers represent less than 10% of consolidated net sales. Eliminations reflect intercompany sales between industry segments. Segment operating profit/(loss) includes all costs and expenses directly related to the segment involved and an allocation of expenses that benefit more than one segment. Segment operating profit/(loss) also includes the noncash amortization of excess reorganization value, which had the impact of reducing operating profit and identifiable assets for North American Gypsum and Worldwide Ceilings. The decrease in 1995 corporate identifiable assets primarily reflects a $127 million reduction in cash and cash equivalents primarily because of debt repayments.

Assets for USG Funding, which was established in 1994, represent the outstanding balance of receivables purchased from U.S. Gypsum and USG Interiors, net of reserves, and are included in "corporate identifiable assets" in the following table. As of December 31, 1995 and 1994, such receivables, net of reserves, amounted to $110 million and $123 million, respectively, including $78 million and $84 million purchased from U.S. Gypsum and $32 million and $39 million purchased from USG Interiors as of the respective dates.

Industry Segments

(Dollars in millions)	Net Sales	Operating Profit/ (Loss)	Amortization of Excess Reorganization Value	Depreciation, Depletion and Amortization	Capital Expenditures	Identifiable Assets
Year ended December 31, 1995						
North American Gypsum	$1,924	$ 262	$ 82	$ 42	$ 96	$1,157
Worldwide Ceilings	609	(34)	87	14	49	531
Corporate	-	(38)	-	11	2	206
Eliminations	(89)	-	-	-	-	(4)
Total	2,444	190	169	67	147	1,890
Year ended December 31, 1994						
North American Gypsum	1,780	184	82	38	49	1,178
Worldwide Ceilings	594	(38)	87	13	15	600
Corporate	-	(42)	-	33	-	352
Eliminations	(84)	-	-	-	-	(6)
Total	2,290	104	169	84	64	2,124
May 7 through December 31, 1993						
North American Gypsum	1,005	57	55	25	24	1,218
Worldwide Ceilings	367	(30)	58	9	5	697
Corporate	-	(26)	-	10	-	251

Eliminations	(47)	-	-	-	-	(3)
Total	1,325	1	113	44	29	2,163

January 1 through May 6, 1993						
North American Gypsum	438	36	-	14	8	1,285
Worldwide Ceilings	173	13	-	6	4	771
Corporate	-	(11)	-	2	-	139
Eliminations	(20)	-	-	-	-	(1)
Total	591	38	-	22	12	2,194

Geographic Segments

	Net Sales	Operating Profit/ (Loss)	Amortization of Excess Reorganization Value	Depreciation, Depletion and Amortization	Capital Expenditures	Identifiable Assets
	(Dollars in millions)					
Year ended December 31, 1995						
United States	$ 2,161	$ 191	$ 135	$ 56	$ 123	$ 1,557
Canada	155	(3)	18	6	19	146
Other Foreign	246	2	16	5	5	187
Transfers between geographic areas	(118)	-	-	-	-	-
Total	2,444	190	169	67	147	1,890
Year ended December 31, 1994						
United States	2,008	94	135	74	52	1,770
Canada	164	2	18	5	9	153
Other Foreign	228	8	16	5	3	200
Transfers between geographic areas	(110)	-	-	-	-	1
Total	2,290	104	169	84	64	2,124
May 7 through December 31, 1993						
United States	1,147	3	90	36	20	1,789
Canada	95	(6)	12	5	6	178
Other Foreign	143	4	11	3	3	197
Transfers between geographic areas	(60)	-	-	-	-	(1)
Total	1,325	1	113	44	29	2,163

January 1 through May 6, 1993						
United States	507	28	-	18	9	1,776
Canada	48	4	-	2	1	198
Other Foreign	65	6	-	2	2	221
Transfers between geographic areas	(29)	-	-	-	-	(1)
Total	591	38	-	22	12	2,194

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' 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 sheets of USG Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of earnings and cash flows for the years ended December 31, 1995 and 1994, and the period of May 7 through December 31, 1993. We have also audited the consolidated statements of earnings and cash flows for the period of January 1 through May 6, 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 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 "Note 6. Financial Restructuring," 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 from January 1 through May 6, 1993, 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, 1995 and 1994, and the results of their operations and their cash flows for the years ended December 31, 1995 and 1994, and the periods of May 7 through December 31, 1993, and January 1 through May 6, 1993, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 25, 1996

USG CORPORATION
SELECTED QUARTERLY FINANCIAL DATA (unaudited)
(Dollars in millions, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1995					
Net sales	$ 598	$ 615	$ 629	$ 602	$ 2,444
Gross profit	152	149	152	150	603
Operating profit (a)	50	47	48	45	190
Net loss (a)	(2)	(3)	(2)	(25) (b)	(32)
Per common share:					
Net loss	(0.05)	(0.07)	(0.04)	(0.55)	(0.71)
Price range (c)					
- high	24.125	26.875	29.625	31.375	31.375
- low	19.250	21.625	23.625	26.875	19.250
EBITDA	106	103	106	102	417

1994					
Net sales	506	562	621	601	2,290
Gross profit	110	133	153	121 (d)	517
Operating profit (a)	11	32	47	14 (d)	104
Net loss (a)	(34)	(17)	(6)	(35) (d)	(92)
Per common share:					
Net loss (e)	(0.87)	(0.38)	(0.13)	(0.79)	(2.14)
Price range (c)					
- high	36.000	32.250	24.500	21.750	36.000
- low	27.500	17.750	18.375	17.250	17.250
EBITDA	66	87	105	67	325

(a) Excess reorganization value, which was established in connection with the Restructuring in May 1993, is currently being amortized over a five-year period. This noncash amortization, which has no tax impact, reduced operating profit and net earnings by approximately $42 million in each quarter during 1995 and 1994.

(b) Fourth-quarter 1995 net loss includes a $30 million pretax ($24 million after-tax) charge in connection with the planned sale of the Corporation's insulation manufacturing business in the United States and the closure of its insulation plant in Canada .

(c) 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, 1996: Common - 4,871; Preferred - none.

(d) Fourth-quarter 1994 gross profit, operating profit and net loss reflect a $30 million pretax ($17 million after-tax) charge to cost of sales for asbestos litigation settlements. Fourth-quarter 1994 net loss also reflects a $16 million pretax ($9 million after-tax) charge for the write-off of reorganization debt discount.

(e) As a result of common shares issued in the first quarter of 1994 in connection with the Equity Offering, the sum of the losses per common share for the four quarters of 1994, which are based on average shares outstanding during each quarter, does not equal the loss per common share for the year ended December 31, 1994, which is based on the average shares outstanding during the year.

USG CORPORATION
COMPARATIVE FIVE-YEAR SUMMARY (a) (unaudited)
(Dollars in millions, except per share data)

	Years ended December 31, 1995	Years ended December 31, 1994	May 7 through Dec. 31, 1993	January 1 through May 6, 1993	Years ended December 31, 1992	Years ended December 31, 1991 (b)
Earnings Statement Data:						
Net sales	$ 2,444	$ 2,290	$1,325	$ 591	$ 1,777	$ 1,712
Gross profit	603	517	263	109	317	327
Selling and administrative expenses	244	244	149	71	218	194
Amortization of excess reorganization alue	169	169	113	-	-	-
Operating profit	190	104	1	38	99	133
Interest expense	99	149	92	86	334	333
Interest income	(6)	(10)	(4)	(2)	(12)	(11)
Other (income)/expense, net	32	3	(8)	6	1	5
Reorganization items	-	-	-	(709)	-	-
Earnings/(loss) from continuing operations before extraordinary items and changes in accounting principles	(32)	(92)	(108)	640	(191)	(141)
Extraordinary gain/(loss), net of taxes	-	-	(21)	944	-	-
Cumulative effect of accounting changes	-	-	-	(150)	-	-
Net earnings/(loss)	(32)	(92)	(129)	1,434	(191)	(161)
Net loss per common share (c)	(0.71)	(2.14)	(3.46)			
Balance Sheet Data (as of the end of the period):						
Working capital/(deficit)	108	228	132	218	(2,610)	(2,353)

Current ratio	1.28	1.55	1.28	1.78	.20	.22
Property, plant and equipment, net	842	755	754	767	800	819
Total assets	1,890	2,124	2,163	2,194	1,659	1,626
Total debt (d)	926	1,149	1,531	1,556	2,711	2,660
Total stockholders' equity/(deficit)	(37)	(8)	(134)	4	(1,880)	(1,680)
Other Information:						
EBITDA	417	325	155	63	159	194
Capital expenditures	147	64	29	12	49	49
Gross margin%	24.7	22.6	19.8	18.4	17.8	19.1
EBITDA margin%	17.1	14.2	11.7	10.7	8.9	11.3
Market value per common share (c)	30.00	19.50	29.25			
Average number of employees	12,400	12,300	11,900	11,750	11,850	11,800

(a) Due to the Restructuring and implementation of fresh start accounting, financial statements for periods subsequent to May 6, 1993, are not comparable to financial statements for periods prior to that date. Accordingly, a vertical line has been added to separate such information. See "Note 6. Financial Restructuring" for information on the Restructuring and implementation of fresh start accounting.

(b) Results reflect DAP Inc. (sold in 1991) as a discontinued operation.

(c) Per share information for the period of January 1 through May 6, 1993, and for the years ended December 31, 1992 and 1991, is omitted because, as a result of the Restructuring and implementation of fresh start accounting, it is not meaningful. Market value per common share reflects the closing stock price on December 31 of the applicable year.

(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 are $907 million, $1,122 million, $1,476 million and $1,461 million as of December 31, 1995, 1994, 1993, and May 6, 1993, respectively.

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. (a).	Delaware
USG Interiors International, Inc.	Ohio
USG Funding Corporation	Delaware
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
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 Asia Pacific Holdings Pty. Ltd.	Singapore
USG Interiors Pacific Ltd.	New Zealand
USG Interiors Austrailia 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, 1995, L&W Supply conducted its business out of 156 locations in 34 states using various names registered under applicable assumed business name statutes.

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated January 25, 1996, included in this Form 10-K for the year ended December 31, 1995, into the Corporation's previously filed Registration Statements Nos. 33-40136 and 33-64217 on Form S-3 and 33-22581, as amended, 33-22930, 33-36303,33-52573, 33-52715, 33-63554 and 33-65383 on Form S-8.

/s/Arthur Andersen LLP
ARTHUR ANDERSEN LLP

Chicago, Illinois
February 29, 1996

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose name 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 ending December 31, 1995 of USG Corporation and any or 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 substitutes, may lawfully do or cause to be done by virtue hereof.

This power of attorney has been signed as of the 14th day of February, 1996, by the following persons:

Eugene B. Connolly, Chairman of the Board	W. H. Clark, Director
William C. Foote, President and Chief Executive Officer	James C. Cotting, Director
Robert L. Barnett, Director	Lawrence M. Crutcher, Director
Keith A. Brown, Director	David W. Fox, Director
Philip C. Jackson, Jr. Director	John B. Schwemm, Director
Marvin E. Lesser, Director	Judith A. Sprieser, Director

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

<ARTICLE> 5
<MULTIPLIER> 1,000,000

<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1995
<PERIOD-END>	DEC-31-1995
<CASH>	70
<SECURITIES>	0
<RECEIVABLES>	260
<ALLOWANCES>	14
<INVENTORY>	175
<CURRENT-ASSETS>	491
<PP&E>	979
<DEPRECIATION>	137
<TOTAL-ASSETS>	1890
<CURRENT-LIABILITIES>	383
<BONDS>	865
<COMMON>	5
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<OTHER-SE>	(42)
<TOTAL-LIABILITY-AND-EQUITY>	1890
<SALES>	2444
<TOTAL-REVENUES>	2444
<CGS>	1841
<TOTAL-COSTS>	1841
<OTHER-EXPENSES>	244
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	93
<INCOME-PRETAX>	65
<INCOME-TAX>	97
<INCOME-CONTINUING>	(32)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(32)
<EPS-PRIMARY>	(0.71)
<EPS-DILUTED>	(0.71)